DANIEL WEBSTER AS AN ECONOMIST

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ROBERT LINCOLN CAREY, M. A.

Instructor in Economics, New York University

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY
IN THE
FACULTY OF POLITICAL SCIENCE
COLUMBIA UNIVERSITY

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To

THE MEMORY OF

HENRY S. JONES

EDUCATOR AND HUMANITARIAN

It is a great pleasure to be able to acknowledge in this place my indebtedness to all faculty members in the Department of Economics of Columbia University. I wish to express my deepest gratitude to Professor E. R. A. Seligman for the invaluable aid which he has rendered me throughout many years of contact with him at Columbia, and to Professor H. R. Seager for the many friendly consultations he has generously afforded me. My obligations extend furthermore, to Mrs. Gertrude D. Stewart, secretary of the Department of Economics, for her frequent and helpful counsel; to Professor Robert Hale whose suggestions, made in connection with proof reading, have improved the quality of this analysis of Webster; and, finally, to my parents whose constant encouragement has proven to be a force of immeasurable value.

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INTRODUCTION

THE public life and professional career of Daniel Webster have been discussed by biographers, historians, and other commentators primarily from three points of view—Webster as a great orator, as a lawyer and jurist, and as a statesman. A thorough investigation and an exhaustive analysis of Webster as an economist, however, and of his contributions to economic thought and policy in the United States has not been undertaken. While it is true that a few of Webster's more important opinions concerning particular economic issues which were prominent throughout the first half of the nineteenth century, such as the tariff, government finance, and the United States Bank, are well known, comparatively little about him is known in regard to his general economic thought. This study aims to explain Webster's underlying system of economic thought and attempts a broad and intensive survey of all his expressions of opinion relating either to economic doctrine and theory or to economic policy and action.

It cannot be maintained that Daniel Webster was an economic theorist of great significance. Webster, himself, made no pretensions and expressed no wish to qualify as an economic theorist, nor was he actuated in making his great speeches on economic questions by a desire to contribute directly to economic literature or economic science. Furthermore, he contributed no single work, whether speech, pamphlet, or volume, which purported to deal with economic doctrines in general. His talents and his temperament were far better adapted to the investigation of particular problems

than to writing general treatises on principles and doctrines. The excellent results of such investigations and his extensive comments upon them, expounded nearly always in his speeches and very rarely in writing, demonstrate the truth of the claim that Webster was an economist of great ability.

That Webster should even be considered as an economic scientist may appear to be unjustified in view of some of his own words contained in a letter written in 1830 to a Mr. Dutton. He wrote: "For my part, though I like the investigation of particular questions, I give up what is called the science of political economy. There is no such science. There are no rules on these subjects so fixed and invariable as that their aggregate constitutes a science. I believe I have recently run over twenty volumes from Adam Smith to Professor Dew of Virginia and from the whole, were I to pick out with one hand all the mere truisms and with the other all the doubtful propositions, little would be left." [1] In another letter written to Jared Sparks four years earlier, he said regarding his opinions of the contributions made by the classical writers of Europe: "I must confess there is a great deal of solemn commonplace and a great deal also of a kind of metaphysics in all or most of the writers on these subjects. There is no science that needs more to be cleared from the mists than political economy. If we turn our eyes from books to things, from speculation to fact, we often perceive that the definitions and rules of these writers fail in their application." [2]

Despite such opinions as these, Webster was nevertheless profoundly interested in the progress of economic thought and investigation. He was repelled only by the abstruse,

[1] Letter to Mr. Dutton, May 9, 1830 reprinted in *Writings and Speeches of Daniel Webster*, national edition, Boston, 1903, vol. xvii, p. 501.

[2] Letter to Jared Sparks, March 26, 1826 reprinted in *Writings and Speeches of Daniel Webster*, national edition, Boston, 1903, vol. xvi, p. 125.

deductive, rigid, and, to him, impracticable generalizations of the classical writers. While his own method in economic study was in large measure inductive and historical, embodying concentration upon one specific problem at a time, he showed not only willingness but ability to make excellent use of the deductive method on a number of significant occasions. Wherever possible, however, he substantiated his argumentation with abundant statistical or historical evidence. His thorough examination of English and American economic questions, his acquaintance with the greatest English works on economics, and his broad knowledge of English and European history enabled him to use the historical and comparative methods with convincing effect. His speeches, even on broad social and economic issues, were prepared in the manner of a jurist pleading his case not only before the bar of justice but also before the bar of public opinion in which Webster often asserted his unreserved confidence. That he anticipated taking active part in contributing to the written literature on economics was revealed by his intention expressed in 1826 to some day write his own thoughts on the subject, although he did not expect to prepare a volume of massive proportions. At another time he expressed a desire to write an article on McCulloch of whom he seemed to hold a very high opinion. Neither of these literary projects, to the knowledge of this writer, was ever consummated. Because Webster was less disposed toward written than toward oral expression, it follows that evidences of Webster's economic abilities must be gathered principally from his speeches rendered in the House of Representatives, in the Senate, and at various public gatherings at different times throughout the country. The other primary sources, of course, are his correspondence, his pamphlets of which there are but few, and his legal and diplomatic documents.

Before engaging in the detailed analysis of Webster's eco-

nomic thought, it is expedient to indicate briefly and chronologically some of his greatest works considered from the economic point of view. No attempt is made in this hasty sketch to enumerate all of even his finest efforts which contributed to economic thought and public discussion.

Daniel Webster was elected to the thirteenth Congress, in which he took his seat on May 24, 1813, and for the first time entered national politics. Up to this time, the only notable contribution in which he displayed his capacity for economic thinking was the pamphlet on the embargo written in 1808. The two finest speeches from the economic point of view made during his first term as Congressman were concerned with banking, currency, and public finance. One of these was a splendid criticism of the bank bill then before Congress, delivered on January 2, 1815; the other related to the effects of depreciated currency on the public finances. There were other speeches, equally admirable but much shorter, dealing with direct taxes, public credit, the state of the finances, the tariff question, and internal improvements.

From 1817 to 1823, a period of political peace, Webster was not a member of Congress. He made a number of addresses during this interim involving economic problems. The Plymouth oration of 1820 spoke of *laissez faire,* the ends of government, and of the economic basis of politics. In the Massachusetts convention of that year, Webster made his interesting defense of the property basis of government and expounded other political and economic theories. Of all the discourses of this six-year period dealing with economics, perhaps the greatest was the long Faneuil Hall speech defending the free-trade principle and touching upon a number of economic subjects.

Webster re-entered Congress as a representative of Boston in 1823, and there followed four useful and eventful years of public service in the House. The Greek Revolution ad-

dress of 1824 expounded his anti-imperialist views. In the same year appeared one of the most magnificent of Webster's creations. The speech on the tariff in April of that year, filled with stimulating economic thought, should occupy a prominent position among the annals of economic literature in the United States. Many other significant remarks on various economic questions were made before Webster entered the Senate in 1827. The tariff speeches of 1828, 1832, and 1833, delivered in that body, contributed much to the general discussion but none approached the depth and the broad sweep of the 1824 address. The great reply to Hayne contained a few valuable references to economic problems.

The session of 1831-1832 marked the beginning of the intense and bitter contest with Jackson which was in part responsible for the birth of the Whig party. During the fourth decade of the century, Webster was amazingly active in discussing problems of banking, currency, and public finance principally. In the session of 1833-1834, he spoke over sixty times on these subjects. Many of these works have proven to be of immense value in furnishing general source material for this study. Webster's broad intellectual vision was capable of encompassing a great variety of economic topics suggested by the principal points and themes of each address. The greatest of the remarkable series of addresses which extended throughout the entire decade were the following: the admirable speech on the bank bill, May 25, 1832; Webster's reply to Jackson's veto of the bill, July 11, 1832; prolonged remarks on the removal of the deposits from the fall of 1833 to the end of the session in 1834; the bank charter speech, March 18, 1834; the remarks on the Specie Circular, December 21, 1836; the speech on the currency, September 18, 1837; and two discourses on the Sub-Treasury, January 18 and March 12, 1838. The second Sub-Treasury speech of prodigious length deserves special

mention and in its way ranks with the speech of 1824 on the tariff and with other great works dealing with finance. There were so many excellent contributions made in this interesting fourth decade that it is not easy to select the greatest, nor is it possible to name them all. Other subjects dealt with at this time were the surplus revenue, public lands, pre-emption, protection, the collection of the revenues, the reply of Calhoun on the Treasury notes and on the currency, and many others. Nor does this enumeration take account of the scores of public addresses on economic questions outside the Senate chamber. Three of the most notable of these were the lecture of 1836 before the Boston Society for the Diffusion of Useful Knowledge in which Webster had much to say about production, the famous Niblo Garden speech of 1837 in New York summarizing his attacks on Jackson's fiscal policies, and the speech delivered before the Wall Street merchants in 1840.

In 1840, the highly interesting debate with Calhoun in the Senate attracted much attention, the subject of it being the general economic effects of protection the discussion of which involved a number of points of economic theory. In the same year, Webster delivered two addresses attacking the Van Buren administration for its general fiscal policies and making special reference to the Treasury note issues. On March 4, 1841, he became Secretary of State in President Harrison's cabinet and remained in that position until his resignation in May, 1843. For a time he retired from public life. He was re-elected to the Senate of the United States by the legislature of Massachusetts in the winter of 1844-1845 to fill the vacancy left by the resignation of Mr. Choate. Most prominent among his contributions to economic thought after 1845 were his attacks upon American imperialism, his denunciation of the purposes and financial policies of the Mexican War, and, above all, his

great speech on the Walker tariff of 1846. The celebrated "Seventh of March speech" of 1850, which dealt primarily with slavery, contained incidental references to economic questions. His last speech in the Senate, delivered July 17, 1850, was largely concerned with the same subject. His last public office was the Secretaryship of State in President Fillmore's cabinet. He died on October 24, 1852.

Only a few remarks concerning the form and method which underlie the presentation of this analysis of Webster as an economist remain to be made. The dissertation is divided into four parts. Part I undertakes to explain Webster's general economic philosophy and his opinions upon a few fundamental concepts such as *laissez faire,* competition, private property, and others. Part II has been designated as the "Economics of Production," and attempts to bring together and evaluate Webster's opinions, expressed at various times, upon matters pertaining to general and specific aspects of production of wealth and embodies his views on business enterprise in its various manifestations, a theory of production, the machine industry, labor, and capital. Part III, entitled the "Economics of Exchange," is subdivided into five chapters dealing, respectively, with Webster's opinions on money, credit, and currency problems, with the bank question, with his exposition of international trade theory, and, finally, with the tariff issue, to which two chapters are devoted. Part IV entails a discussion of Webster as a public financier from two points of view: first, an analysis of his ideas regarding the operation of general principles underlying the administration of the public finances, and, second, a brief treatment of his views upon four important public issues involving government finance. The conclusion essays to summarize and evaluate the economic ideas of Daniel Webster.

Chapters II, IV, and V of Part III, dealing with the bank

question and tariff problems, have been treated in somewhat different fashion than the other parts of the work. In all parts except the chapters just indicated, opinions of Webster relating to a given economic precept have been brought together regardless of the time at which they were made, due consideration, of course, having been taken of the circumstances surrounding each assertion. For example, opinions regarding *laissez faire,* property, competition, credit, currency, industralism were expressed many times throughout his life. It has contributed most to the exposition, it is hoped, to mobilize all opinions on each topic and to discuss them together. In the event of discrepancies and contradictions, explanations have been offered. In handling the banking and tariff questions, however, it has been deemed wisest to explain Webster's views historically and chronologically inasmuch as his opinions on these great issues are best presented as an evolutionary growth.

PART I

General Economic Philosophy of Webster

CHAPTER I

Fundamental Concepts

I. CONSERVATISM

Webster was by birth and temperament a conservative, displaying none of the skepticism which was a feature of his time. Inheriting his religion and politics from his forbears, he accepted them without question. He had something of the spirit of Lord Thurlow who once said: "I support the Church of England because it is established". His views on political and economic questions were guided by much the same spirit, a profound faith in existing institutions and established practices. Politically, he could never have been anything else than a Federalist. In his early life, he cordially hated everything Democratic, the very thought of the Jeffersonian triumph in 1800 paining him acutely. He abhorred the "corrupt" character of the "contagion of Democracy" wherever its influence was felt. He never departed from his faith in the principles of Federalism, remaining always a steadfast and loyal party man. This devotion to his party colored his opinions on economic questions far less than did his conservative temperament. Because he was a strong party politician does not mean that he was blindly intolerant and a slave of partisanship, as his father and brother were. By the time he had reached his maturity, a greatness and breadth of mind precluded any attitude of bigotry and narrowness. He regarded contemporary institutions with contentment and satisfaction, but only because his intellect and understanding had convinced him that they were beneficent and that change would be harmful.

One speech of Webster, delivered before the Massachusetts constitutional convention in 1820, admirably illustrates both his conservative traits and his liberal tolerance of other views. The speaker was in agreement with the liberals in advocating abolition of the religious test for holding office. His conservatism and even political fundamentalism, which were so deeply ingrained within his nature, were revealed in the reasoning by which he justified his support of such a cause. He did not argue for the change because abolition of religious tests was a new idea or a step toward a more enlightened era, but because he thought religious qualifications for office constituted an obsolete form and were out of harmony with the fundamental doctrines of American political life.[1]

Webster's conservative attitude toward established institutions determined the role he was to play in his long and eventful public career. In the great questions of trade and tariff, banking and finance, currency and credit, government income and expenditure he almost invariably stood forth as the champion of traditional and well established practices. There was little of the reformer, or the social and economic evangelist in Webster. Rarely was he a crusader in a new untried venture and never was he prey to Utopian visions and dreams for the uplift of the masses. His Utopia existed in actuality, the world in which he lived.

2. "LAISSEZ FAIRE" THEORY

Webster on many occasions expressed his faith in the principle of *laissez faire*. The happiness and prosperity of the commonwealth he thought would be most rapidly promoted by self-imposed restraints on government action as regards economic affairs. Webster, however, was moderate

[1] Speech before the Massachusetts Constitutional Convention, Dec., 1820, *Writings and Speeches*, vol. v, pp. 3-7.

in this as he was in most of his views. He never believed the state should assume an attitude of hostility or of indifference toward the conduct of its citizens. On the contrary, he assigned to it a very great responsibility in the promotion of material and spiritual well being among the people. He conceived the end of government to be the diffusion of welfare by such means as encouraging the growth of population "beyond all example"; spreading the growth of commerce, manufacturing, and the arts; lightening tax burdens; but, above all, by keeping government coercion and intervention almost to the point of invisibility. In general, then, to restrict the scope of government action was to cause its influence to be most beneficial.

The first defense of *laissez faire* made by Webster, in the interests of commerce and navigation, was contained in a pamphlet composed in 1808 on the subject of the embargo, a tract which gained him recognition as a national figure. His attack upon the administration was based upon the alleged unconstitutionality of its acts in erecting what he designated as an "unlimited" embargo. The author demonstrated that such an act was not only unlawful but was injuring the commerce of the country by an outrageous interference with private enterprise.[1]

A still more vigorous endorsement of the *laissez faire* philosophy with respect to commerce and, for the first time, industry, was given out in 1814. In April, of that year, Calhoun defended in the House a bill to repeal the Embargo. The Embargo and the Non-Intercourse Acts, combined with war tariffs providing for double duties, had worked very effectively as stimulants to domestic industrial enterprise. The manufacturers were apprehensive about the consequences to themselves of the removal of these trade barriers. Cal-

[1] Pamphlet on the Embargo, published 1808, reprinted in *Writings and Speeches*, vol. xv, pp. 564-574.

houn pledged protection to the manufacturing interests in the event of the repeal which he advocated. In his reply to Calhoun, Webster expounded his doctrine of *laissez faire* and as a corollary, remarked that if government intervention had to come, equal protection should be dispensed to all. While proclaiming himself a friend of industry, he denounced a policy of rearing any interest in "hot beds". Capital investment in manufacturing should not be accelerated beyond the "natural" rate of growth. His own words explain his position best. "It is the true policy of government to suffer the different pursuits of society to take their own course, and not to give excessive bounty or encouragement to one over another. This also is the true spirit of the constitution. It has not, in my opinion, conferred on the government the power of changing the occupations of the people of different states and sections and of forcing them into other employments. It cannot prohibit commerce any more than agriculture, nor manufactures any more than commerce. It owes protection to all."[1] Such action he lauded as the "good old-fashioned policy".

Illustrations of Webster's *laissez faire* economics are so abundant and so interesting that it is tempting to discuss them fully in these pages. However, it is necessary to confine the treatment to four of these, to be presented without regard to their proper chronological appearances.

In the first place, the general principle of non-intervention was upheld in the great tariff speech of 1824. A number of individuals had expressed their desire for prompt government action to control the expanding specie exports. Webster opposed this for the reason that, while the United States was exporting metal, it was the recipient of specie from other countries, a process stimulated by the greater

[1] Speech on the Embargo, April 7, 1814, *Writings and Speeches*, vol. xiv, p. 45.

freedom possessed by American merchants over the British traders. In advancing this point, it was Webster's intention, in part, to assail the English trading monopolies which restrained the freedom of enterprise. Elsewhere in the same discourse there exists an expression of the irresistible power of individualism. "The general sense of this age sets with a strong current in favor of freedom of commercial intercourse and unrestrained individual action. Men yield up notions of monopoly and restriction reluctantly, but they cannot withstand the general tide of opinion." [1] Even the unnamed authorities of economic science were invoked to support his view that any policy of restraining trade to benefit manufactures or for any purpose whatever was "not only mischievous but inconsistent with the just notions of political economy".[2]

Webster advocated *laissez faire* with respect to mining as well as manufacturing enterprises. In defending coal import duties, early in 1837, a solemn warning was issued that if the government further interfered with mining industries, by removing the duty on coal, they would be destroyed. "There is no justification for interference here. Great results cannot be produced if governments are resolved not to leave enterprises of our citizens to the effect of fair competition." [3] Webster's pronouncement was somewhat inconsistent, since the government had already intervened by laying a duty on imported coal.

In the third place, Webster's advocacy of *laissez faire* covered the operations of banking and finance, as well as

[1] Speech on the Tariff, April, 1824, *Works of Daniel Webster*, Boston, 1860, vol. iii, p. 192.

[2] Speech on the Tariff, October, 1820 at Faneuil Hall, Boston, *Writings and Speeches*, vol. xiii, p. 7.

[3] Speech against the reduction of duties on coal, February 24, 1837, *Works of Webster*, vol. iv, p. 307.

those of industry and commerce. Speaking on behalf of the United States Bank in 1832, Webster argued for a slight connection only, as between the government and the bank. He vigorously objected to the bank bill of that year because of the clause empowering the government to appoint five of the bank's directors. He feared that such a condition would create too close an alliance between government and bank and, as a true empiricist, plead for *laissez faire* on the grounds of experience at home and abroad. He held a high opinion of the principal banks of Europe, attributing their stability to freedom from state interference. "The credit of banks has generally been in proportion to their independence of government." [1] As for the United States, "we have had no experience of such government interference in the direction of a bank; in other countries, such connection between government and banking institutions has produced nothing but evil".[2]

Finally, the fourth illustration is presented because the breadth of his expression summarized in an admirable way his general point of view. In the Faneuil Hall speech of 1820, he attacked government interference because it led people to excessive reliance upon the state instead of depending on their own skill and initiative, thus weakening the stern fibre of individualism which Webster loved so well. In the same address, he made the following statement: "to leave men to their own discretion, skill, and prudence and to employ capital and labor in such occupations as they find most expedient is the wisest, simplest course of political legislation." [3] That is, little or no legislation would be the best legislation.

[1] Speech on the United States Bank, a bill to renew the charter, May 25, 1832, *Works of Webster*, vol. iii, p. 392.

[2] *Ibid.*, p. 392.

[3] Speech on the Tariff, 1820, at Faneuil Hall, Boston, *Writings and Speeches*, vol. xiii, p. 9.

Webster adhered to the principles of *laissez faire* and individualism all his life. The speeches and writings of his entire career are imbued with the individualist spirit. It is true that Webster frankly admitted the indispensability of certain notable exceptions to the general norm of non-interference. He was responsible himself for the creation of one of the most widely known of these exceptions. After 1828, he abandoned the policy of free-trade and preached protection to American manufacturing, agriculture, and navigation. Furthermore, he always remained a strong advocate of government supervision over the development of internal improvements. As another modification of the general principle, he believed that some measure of control, chiefly indirect, ought to be assumed by the state over the national currency. As regards agriculture, he thought that the government should aid the farmer in the transportation and disposition of his surplus produce and in providing him a secure market. The instrumentalities by which these two objects could be achieved were, in his opinion, internal improvements and, after 1828, the protective tariff. Webster's theory of government, to conclude, was extremely simple in its form but most difficult of application. It was his view that, since the government existed for the benefit of the governed, it was to do for individuals what they could not do for themselves.

3. NATURALISM

Another significant element in Webster's general economic thought, intimately related to his *laissez faire* views, was his belief that the forces at work in the social world were of the same character as those operating in the physical and natural realm. Frequently he referred to the naturalness of the motives and desires which govern man in his social relationships, implying but never explicitly expressing that

the economic system was controlled by natural forces. Evidences of this point of view, though abundant in Webster, must be gathered from incidental references scattered throughout his works. No single speech or pamphlet was given over to an exposition of his philosophy which was so deeply tinged with naturalism.

One of the clearest allusions to his naturalism occurred in the Faneuil Hall speech of 1820 in the following manner: "As there is an order in the natural world holding all things in place—as the air we breathe is so wisely compounded for our own use by nature—so in the social world there is a principle of regulation, a sort of vis medicatrix naturae." [1] Excess or deficiency in the production of any class of articles or in any form of economic enterprise would automatically correct itself, according to Webster, by natural action. Furthermore, he said: "To improve the order, habit, and composition of society by artificially balancing trades and occupations can no more be done than can the natural atmosphere be changed." [2] In the same address, he referred to the "natural state and course of things" as being infinitely superior to a system of "artificial" regulations. The latter he feared would be destructive of the natural condition of harmony which should prevail between all the elements of economic society. The prosperity of England he said had been achieved in spite of the "artificial system" and not because of it.

Confidence in a benevolent, natural, economic order which works best if left undisturbed is found throughout the whole literature of Daniel Webster. His naturalism was especially prominent in the free-trade speeches delivered before 1825 in all of which he vigorously denounced government trading

[1] Speech on the Tariff, 1820, at Faneuil Hall, Boston, *Writings and Speeches*, vol. xiii, p. 9.

[2] Speech on the Tariff, 1820, at Faneuil Hall, Boston, *ibid.*, p. 9.

monopolies, embargos, and all laws or acts of the state which artificially interfered with the natural flow of goods and gold between nations. He continued, however, to express the same philosophy, insofar as it applied to economic action, even after his change of opinion on the tariff question. In 1836, for example, he spoke of the " unnatural increase " in the supply of circulating media due to the activities of the state and local banks.[1] In 1837, he criticized the Specie Circular as a measure threatening to destroy the equilibrium of the " natural state of things " by hauling specie away from the great financial centers. Jackson's entire finance policy was attacked as bringing destruction to the " natural " condition of prosperity and happiness. The conduct of business and the force of competition he described in many places as possessing natural characteristics. " The true interest of the community is to allow business to go on until competition by its natural operation brings prices down to a minimum." [2] The institution of private property, fervently admired by Webster even to the point of worship, was also interpreted as natural. " Property has a basis in natural law; it is a natural right." [3] He thought it " fit and natural " that each individual should possess and use property. Sufficient illustration, it is hoped, has been presented to demonstrate the deep influence which the philosophy of naturalism exercised upon the economic opinions of Webster.

[1] Speech on the Specie Circular, December 21, 1836, *Works of Webster*, vol. iv, pp. 264-291.

[2] Speech against the reduction of duties on coal, February 24, 1837, *Works of Webster*, vol. iv, p. 307.

[3] Argument in the Goodyear Rubber case, March, 1852, *Writings and Speeches*, vol. xv, p. 438 *et seq.*

4. COMPETITION

A regime of free and unrestricted competition Webster held to be indispensable to individual and national prosperity and for this reason he nourished a strong antipathy for monopoly and special privilege. The competitive era he regarded as the principal mark of distinction between the enlightened and highly commerical periods and the sluggish ages of the past, when regulation, prohibitions, and monopolies abounded. "In those semi-barbaric days private enterprise was weak and required strong provocatives to incite man to activity, inasmuch as profits which in our time would excite keen competition would hardly move the sloth of former ages." [1] By way of illustration, Webster ascribed Spain's industrial stagnation to the absence of healthy competition, and to the existence of "bigoted legislation, government monopolies, and restrictive laws".

Not only did he think that wealth would be produced in greatest abundance in a competitive system but also he held it primarily responsible for a wide and equitable diffusion of material prosperity, by keeping the rate of profits and the prices of commodities at a low level. His observations led him to state that "from the operation of two causes competition and free enterprise, commercial wealth, while increased beyond calculation in the aggregate, is broken and diminished in its subdivisions".[2] Competition, according to Webster, made life in economic society an exciting adventure, stimulated enterprise and at the same time distributed broadly its rewards, and augmented the general well being by insuring a low cost of living. He asked his hearers "is there anything so effectual in reducing prices as fair and free competi-

[1] Speech on the Tariff, April, 1824, *Works of Webster*, vol. iii, p. 138.

[2] Speech on the Tariff, April, 1824, *Works of Webster*, vol. iii, pp. 138-139.

tion? ". He always assumed without question that low prices and the absence of high profits indicated general prosperity and happiness, from which assumption he deduced that neither of these highly desirable objects could be achieved without a system of competition.

Webster's naive confidence in the beneficence of competition was scarcely exceeded by Adam Smith's faith in his own " obvious and simple system of natural liberty ". In fact Smith's optimism and naturalism appear to have left a deep impression upon Webster's thought. There was another aspect of the doctrines of competition and individualism concerning which Adam Smith and Daniel Webster were in almost complete accord, namely, the automatic and harmonious adjustment between individual and social well being. However, the great American called to the attention of his hearers a number of significant exceptions in order to prove that the welfare of the individual and of the community may sometimes diverge. The most prominent of these exceptions he pointed out lay in the transportation and banking enterprises. In 1845, for example, during the early period of American railway development, he decried the inflation of stock values for the benefit of the promoters as a departure from sound business enterprise and as one of those few instances of " private interest unconnected with public improvement ".[1] In the case of the railway industry, he asserted that competition and self-interest may become " destructive " of public welfare. Although he intimated that some modification of unbridled competition might be expedient, he did not advocate rigid control of railroad operations in the interests of the public any more than he would have supported a proposal for nationalization. Banking and finance was the other field in which Webster saw the possibility of dis-

[1] Boston and Lowell Railroad case, Boston, January 20, 1845, *Writings and Speeches*, vol. xv, p. 386.

harmony between individual and public welfare. The actions of some state banks in overissuing depreciated paper money, motivated by considerations of self-interest, he held to be detrimental to social welfare by occasioning increases in prices and adding to the fever of speculation. Speculation in any form he always stood ready to pronounce as anti-social. Perhaps it is fair to Webster that a third exception be mentioned, lest he be misunderstood. He did make a few mildly expressed references to unscrupulous factory owners who deliberately exploited their defenseless woman and child employees. In general, however, he looked as complacently upon the factory system as he did upon the competitive order, with a readiness to magnify the benefits of both and to minimize or ignore their disadvantages.

It should be added, in conclusion, that in the event of a conflict between the community and the individual points of view, which of course, Webster recognized as possible, the superiority of the former was held by him to be indisputable. He opposed labor organizations because he thought them to be conspiracies to injure public welfare for the benefit of their own members. The point is further illustrated very well by a significant passage in one of his bank speeches: "it is of less importance to make a bank profitable to its stock holders than to make it safe and useful to the community." [1]

[1] Speech on the Bank of the United States, a bill to renew the charter May 25, 1832, *Works of Webster*, vol. iii, p. 400.

CHAPTER II

Property and Prosperity

I. General Opinions of Property

That private property, supplemented by the rule of individualism in a competitive society, constituted the real basis of an enlightened economic system, Webster would pronounce to be an undeniable self-evident truth. Private property was regarded by him as a moral as well as an economic category. It was sanctioned not only as an end in itself but also as the most effective means by which one of his own cardinal virtues, love of country and its institutions, could be achieved. In one of his speeches he said: "If it be but a cottage, or a garden, its possession raises the individual, gives him self respect, and strengthens his attachment to his native land." [1] This quotation shows that Webster did not think the attainment of vigorous individual moral character possible without guaranteeing to each that which he could name as his own. The property right was esteemed by Webster as a natural, a sacrosanct, and almost an inviolable right. Webster, however, set forth no claim that property, because it was founded upon natural precepts, was an absolute. Such qualifications of the exclusive nature of property as taxation and eminent domain he would not hesitate to apply. For example, in the Boston and Lowell Railroad case of 1845 he energetically upheld the eminent domain principle in railway construction but a strict interpretation of

[1] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 432.

" public benefit " and complete justice to the property holder were enjoined.

Private property was looked upon with great reverence, furthermore, because it served as a most effectual stabilizing influence in society. Possession, in addition to its indispensability for individual happiness and moral progress, he thought was the force which would make conservatives of all. " Almost every man among us is interested in preserving the state of things as it is because almost every man possesses property. He sees clearly what he would lose by change." [1] Private ownership was Webster's bulwark against radicalism and revolution, the guarantor of faith in the status quo. For the reasons given above, he believed the economic system should be so arranged as to provide every member of it an opportunity to acquire this privilege, so necessary to one's well being. On such grounds as these he erected his elaborate justifications of free enterprise, competition, credit and banking, and the abstention of government from business life.

As regards the character of property rights, Webster's views were clearly expressed in the argumentation over the Goodyear Rubber case, which dealt primarily with inventor's property rights but contained passages relating to property in general.[2] The general property right Webster interpreted as an exclusive privilege, the natural right to enjoy and use wealth without assessment except for taxes. The property right of the inventor was considered as a corollary of the general property doctrine and therefore a " natural " right also. Property acquired through inheritance was distinguished from that accumulated by the fruits of inventive

[1] *North American Review*, July, 1820, " Law of Creditor and Debtor," reprinted in *Writings and Speeches*, vol. xv, p. 84.

[2] Argument in the Goodyear Rubber case, March, 1852, *Writings and Speeches*, vol. xv, p. 437 *et seq.*

genius, the latter being elevated to a higher plane because the source of it was " personal earnings ". Webster maintained that the inventor's right had to be paid for and payment ought to be consummated by the loss of exclusive control over his invention at the expiration of his patent, at which time the invention would become public property. Thus Webster recognized the existence of a certain social obligation of the inventor and in this way distinguished his particular property right from the general concept.

2. ECONOMIC INTERPRETATION OF HISTORY AND POLITICS

The importance assigned by Webster to property in the existing economic order was practically without limit. Its significance, however, was held to extend even beyond its contemporaneous economic and moral functions. Webster always adhered to the opinion that private property and its protection were forces of predominating influence in directing the course of history and moulding constitutions and the forms of government. He showed, first, that great movements and revolutions in the world's history have been animated by contests over property; secondly, he interpreted the constitution of the United States in terms, primarily, of a desire by its creators to protect and preserve property; and thirdly, he developed in one of his best speeches his exposition of the property basis of government. Each of these topics is to be taken up here in the order given above.

As regards the first point, it can scarcely be maintained that Webster propounded a carefully prepared and systematic doctrine of the economic interpretation of history. However, in many of his references to revolution and great social changes, he displayed decided leanings toward such a doctrine. Had he been more of a scholar and less of an active statesman, doubtless he would have formulated a definite philosophy of history along economic lines.

Webster's application of the property interpretation to great historical changes was confined for the most part to revolutions. For example, the fall of Rome he thought was brought about because "property was in the hands of one description of men, power in another" thus destroying the balance of the constitution.[1] From his extensive historical studies, Webster arrived at the conclusion that political power should always be lodged in the hands of the possessing classes. Again, the Revolution of 1688 in England was believed to be a change on behalf of property rights. "It was brought about by men of property for their own security." To mention only one more illustration, "our own immortal revolution," he said, was undertaken not to plunder property but to protect it and was, accordingly, supported by a majority of property holders.[2]

In the last year of his life, Webster stated that religions differed in various communities of the world according to the cultural background of each society, which would mean, by implication, that the economic environment was a major factor in their determination.[3] Because of the high opinion he held for history as "next to epic poetry, the epic of real life" and as art and literature, combined with his tendency to interpret history from the economic point of view, Webster undoubtedly could have made abundant contributions of extremely great merit and interest to the fund of historical knowledge.

Turning now to the second topic mentioned above, Webster ascribed the origin of the American constitution to the neces-

[1] Speech on the basis of the Massachusetts Senate, December 15, 1820, *Works of Webster*, vol. iii, p. 15.

[2] *Ibid.*, p. 16.

[3] Lecture before New York Historical Society on "Dignity and Importance of History," February, 1852, *Writings and Speeches*, vol. xiii, pp. 463-497.

sity of protecting and regulating the commerce and trade of the country and of establishing uniformity in commercial regulations. " The history of the country from the Revolution to 1789 proves this." He attributed the genesis of the constitution to the fact that discordant relations between the States in that period were ruining enterprise and trade. Therefore, he thought it justifiable to describe the constitution as " the child of commerical necessity " and to declare its seminal principle to be the establishment of unity as to the conditions under which free enterprise and commerce were to operate.[1] Many times Webster warned his hearers that the purpose and object of the constitution must be constantly borne in mind by every one concerned, lest its administrators fail to establish a sound currency, adequate protection, uniform standards in trade and other conditions essential to the " whole idea of commerce ".[2]

It is interesting to observe that a speech delivered to the industrialists of Pittsburg in 1833 contains a slightly different explanation of the economic origin of the constitution. On this occasion, the constitution was said to have originated from " the necessity of a general and uniform impost system which, while it should provide revenue to pay the public debt and foster the commerce of the country, should also sustain and encourage domestic manufacturing ".[3] Webster believed that no classes had been more zealous for the constitution than the handicraftsmen, artisans, and manufacturers. Facing the manufacturers of Pittsburg, Webster explained the purpose of the great document to be the protection of domestic industry; on the floor of the Senate, he assumed it to be

[1] Speech on the basis of the Massachusetts Senate, December 15, 1820, *Works of Webster*, vol. iii, pp. 8-25.

[2] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, pp. 424-428.

[3] Speech delivered before the manufacturers of Pittsburg, 1833, *Works of Webster*, vol. i, p. 302.

the encouragement of commerce and trade. The significant thing concerning these different explanations is that in each Webster gave to the nation a straightforward defense of the document in terms of its special guardianship of economic interests. It would be difficult to find more clearly expressed and more unequivocal statements of the economic origin and purpose of the American constitution.

The third topic bore upon the close relationship between property and politics. That property formed the true foundation upon which rested the theory and art of government, was one of Webster's most interesting opinions. He never wavered from the view that "it is part of political wisdom to found government on property." [1] He found support for his own thinking in the writings of Grotius, Montesquieu, Harrington, and others. He was especially fond of quoting Harrington's "power naturally and necessarily follows property," an idea which he considered "as old as political science itself".[2]

In an article written for the *North American Review*,[3] he defined the different forms of government in terms of property. For example, an aristocracy would exist if property and political power should "naturally" accumulate in the hands of a few. He indicated another type of aristocracy which he held to be dangerous; that is, the "artificial" type in which property was possessed by the members of one small class while political power was lodged in the members of another group. Such a situation would invite revolution. Webster preferred a democracy, defined by him as a state in which both property and power were widely diffused. Exces-

[1] Plymouth oration, December 22, 1820, *Works of Webster*, vol. i, p. 39 *et seq.*

[2] Speech on the basis of the Massachusetts Senate, December 15, 1820, *Works of Webster*, vol. iii, p. 14.

[3] *Writings and Speeches*, vol. xv, p. 80 *et seq.*

sive inequality in the distribution of wealth he thought would deprive the majority of political power through inadequate representation.

Since the purpose of government, in his opinion, was to protect property, and, conversely, since property furnished the means by which governments could fulfill their functions of protection, he thought it a just principle that property be duly represented in all political arrangements. The safety and security of property rights to him were paramount considerations in society; no other rights could be safe unless property was secure. Harboring such opinions as these, along with the principle that governments were founded on property, Webster was obliged to face the difficult task of explaining how property could be represented in government without the state degenerating into an oligarchy.

The opportunity to publicly expound his theory of the relationship between government and property appeared in 1820 during the sessions of the Massachusetts constitutional convention.[1] The address delivered on this occasion was one of his ablest and most interesting performances. The principle of choosing senators for the upper house in Massachusetts according to taxable property had been in force since 1780. In forty years time, the spread of the spirit of democracy had given rise to the claim that the plan discriminated in favor of the richer districts and was incompatible with true Americanism. The big issue before the convention was whether the system should be retained or abolished.

Webster, in a masterly fashion, argued that the property basis for sensatorial election should be preserved. His exposition was divided into two parts; first, an analysis of what should constitute the machinery of government, and, second, a justification of the economic basis of politics as essential to the operation of his theory of government. The

[1] *Writings and Speeches, op. cit.*, vol. xv, pp. 8-25.

check and balance system he asserted to be the cornerstone of representative government. In the legislative branch, he would have the lower house represent the people and the Senate act as a check or effectual negative on the house, the people having conferred great powers on the house which might be abused. Therefore, he deduced, the two chambers must be structurally distinct, a feature indispensable to the successful performance of the check and balance system. Two legislative chambers, elected in the same way, motivated by the same interests, would be more like one body than two, with the additional hazard that the legislative would encroach upon the executive and judicial spheres or even dominate them entirely. In order to achieve the necessary distinction in respect to the origin and sentiment of the two houses, Webster firmly believed that property must be the basis of representation in the upper house, population in the lower.

Having established these points successfully, Webster was next confronted with the problem of defending the principle of representing property, a subject the handling of which required supreme skill and tact, one which even in 1820 was a very delicate and controversial issue. The first defense was advanced on the insecure grounds of expediency, that is, representing property might not be the best method of obtaining structural distinction between the houses, but it was better than no mode at all. A second defense was both simple and obvious, contrasting notably with the third, to be given below. All property, he thought, should be represented because it was subject to taxation for both rich and poor. His third argument, far more subtle than the others, formed one of the few instances of finely drawn logical distinctions to be found in the literature of Webster. In order to safeguard the people against an oligarchical government, he maintained that not the actual personal property and possessions of particular individuals would be represented but the ab-

stract concept of property in a general sense and in a general form. Furthermore, there could be no Senatorial oligarchy because the upper chamber would not limit the power of the people themselves but only the authority of its agents. Therefore, he argued, it could not be true that property would govern the people.

To further assure his hearers that his theory would not mean oligarchy and a concentration of ownership and power in a few individuals, Webster declared that the constitutions, state and federal, were not only founded upon, but also were created to perpetuate a general equality of property distribution. He plead for wise administration to secure this rough equalitarianism, and thus to provide the great majority with an interest in government. A broad distribution of property Webster made the foundation of republican government and the most adequate safeguard and security against revolution. Doubtless, he had in mind agrarian, rather than industrial property, since he went on to express at considerable length his approval of a nation of many small landed proprietors. It is reasonable to conclude that an unequal distribution of property would vitiate the entire plan. That Webster, himself, was aware of this can be seen from his open dislike of the English system of land tenure which promoted the concentration of ownership and his hearty endorsement of the French plan of minute subdivision with a vast number of modest proprietors. The influence of such an economic group as this on the political affairs of the nation he thought would be considerable. For example, he attributed the revolution of 1830 in France to the small proprietors who opposed the actions of the Bourbons in attempting to frustrate the system of sub-dividing property into small parcels. Finally, it may be said that Webster's theory of property representation would be practicable only in a comparatively simple agricultural society.

The significance of this discussion of property and politics is revealed in four different respects: first, the elaborately developed defense of the general proposition that economic and political interests were closely connected; second, the ingenious distinction drawn between property in general and personal property; third, the broad and straightforward manner in which he approached economic questions; and, finally, the sweeping success in winning his points with the aid of Justice Story. The property provision in the Massachusetts constitution was retained, although it was removed not long after the day when Webster's influence was removed. Curtis thinks that "probably there is not on record anywhere a more profound discussion of the principles of forming a republican government so as to embrace means of affording a distinct protection to property." [1]

3. IDEAL OF GENERAL PROSPERITY

Webster's ideal of general material prosperity could have been relevantly treated in the previous chapter but it is best to discuss it in this place as a corollary of his views on property. The enthusiasm for private property, as already observed, was the essence of Webster's economic credo. Equally great was his hatred of any policy which threatened to modify or disturb it in any way. Webster fought for the cause of conservative banking in supporting a Bank of the United States, championed a sound uniform currency, attacked the removal of the government deposits from the Bank in 1833, opposed the Specie Curcular and the Sub-Treasury system, and denounced the unregulated depreciated currency of state banks—some of the great economic issues in the contests over which he gave so much of his life. He was actuated to participation in these grave problems largely because of his burning desire to render private property rights

[1] Curtis, *Life of Daniel Webster* (New York, 1893), vol. i, p. 184.

absolutely secure. He regarded, for example, the attacks upon the bank and a conservative currency system as heretical, bringing " new distress, new insecurity, and more danger to property ".[1] Without security to private property, he thought it futile to attempt to build up industry and spread general prosperity.

Inasmuch as Webster designated private property as the *sine qua non* of individual prosperity and moral well being, it was logical for him to make frequent allusions to the great desirability of having a whole nation of propertied and prosperous citizens. The attainment of general and national prosperity, Webster exalted to the high plane of idealism. Moved by his great ideal, he vigorously supported anything which would promote it. As an illustration of this, his profound respect for business undertakings of all kinds may be mentioned. Webster was convinced that the beneficent spirit of individualism worked itself out through the medium of competitive business enterprise. On countless occasions, he lauded highly all manifestations of economic enterprise as social benefactions through which employment was given to labor and capital, and property and prosperity were distributed among great numbers of people. In Congress, he became a most energetic spokesman for the institution of business enterprise. Early in his public life, before the celebrated change on the tariff question, he was the principal spokesman in and out of Congress for the commercial interests of New England. After 1828, when New England had adapted itself to the tariff schedules of 1824 and erected flourishing textile mills, Webster stood forth as the spokesman for the northeastern industrialists. The welfare of all business interests, however, was a matter of serious concern to him because of their important responsibilities as the media

[1] Remarks on the removal of the deposits, January 30, 1834, *Works of Webster*, vol. iii, p. 524.

through which prosperity was dispensed to the members of society.

Webster, though always the champion of the propertied interests, entertained a sincere desire that as great a number as possible participate in the ownership of the nation's wealth. According to him, property and prosperity were accessible to all who were willing and able to strive for them. Like other individualists of the early nineteenth century, Webster believed that man held sway over his own destiny, given reasonable environment. If an individual sank into poverty or was unemployed, he could attribute his condition to no one but himself and to his own indolence. That there existed such a class of people in the United States, discontented, propertyless, and radical, greatly irritated Webster. He lashed unmercifully this group of radicals who were unwilling to conform, much to his own amazement, to what he regarded as almost a Utopian society with abundant opportunities for self-development. He was unable to comprehend why, in a country where "wages are high, costs of living low, work plentiful and land cheap, where perfect equality and liberty and equitable distribution of wealth are found", there should be a class of people who complain of oppression, of exploitation, and of banks and corporations.[1] "They rend the air with their agrarian doctrines; they would teach the worker that he is an oppressed slave; they would choke up the fountains of industry."[2] The only motive for these protests, as he saw it, was a desire to enjoy the fruits of other men's labors or to destroy completely the habits of society. He even laid the blame for radicalism at the door of prosperity itself. "The very condition of prosperity and abundance produces this condition of licentiousness."

[1] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, pp. 440-441.

[2] *Ibid.*, p. 440.

As has been pointed out, Webster looked with favor upon any agency assisting the progress of general prosperity. In addition to free competition, individualism, business enterprise, favorable inheritance laws which broke up property as fast as accumulated, Webster was mindful of other "agencies of general prosperity," as he called them. One of these was a state of peace between nations. A remark made in Baltimore in 1843 partly explained his hatred of war. "The condition fundamental upon which industrial prosperity exists is peace." [1] While advocating a small army, Webster always supported a big navy due, in part, to his fondness for commerce. Again, the banking and credit system he hailed in many speeches as an agency making possible greater diffusion of material prosperity. One of his favorite arguments upon which he rested his case for the United States Bank was its alleged indispensability to national prosperity because it alone could furnish the country a currency of uniform value and universal credit. The credit mechanism was described as "that most delicate and at the same time most important agent of general prosperity." Opportunity to obtain capital at the bank, he held, was open to all honest industrious men.

Without doubt, sufficient has been said to demonstrate Webster's admiration, as a great national ideal, for a state of general prosperity and, as a consequence, for all agencies which help to make it a reality. Only one other matter, then, remains to be discussed in this connection; namely, the criteria by which Webster presumed to judge whether or not a condition of general prosperity was present in the United States.

An enumeration of these criteria appeared in the tariff speech of 1824, part of which was devoted to Webster's attempted refutation of Clay's assertion that wide distress

[1] Speech before Baltimore merchants, March 18, 1843, *Writings and Speeches*, vol. xiii, p. 153 *et seq.*

predominated.[1] Webster claimed that abundant means of subsistence, absence of oppressive taxation, high wages as compared with European scales, progress in internal improvements, and great investment in road, canal and bridge construction proved the existence not only of prosperity but also of a balance of general income over expenditure and of a surplus for capital accumulation. These indicia of general prosperity were supplemented by two others—money spent on education and the high consumption standards of the American people.

A slight digression as to the significance of the last remark may be permitted. Throughout the prodigious mass of Webster's literary output, there are strikingly few references to consumption. Perhaps Webster's apparent indifference to consumption can be explained by his own assumption that it did not give rise to grave and perplexing problems. He seemed merely to take it for granted. However, his incidental allusion to consumption, while in the midst of an analysis of prosperity, is worthy of mention if only for the reason that it illustrates his method of reaching a conclusion inductively. Strange as it may appear, Webster rejoiced that he could only estimate at best the consumption of goods in the United States because the paucity of official data indicated an absence of heavy taxation on consumers' wares. In this respect, as in so many other ways, Webster loved to point to the happy contrast between the United States and Europe. Webster was aware of the existence of three classes of consumers' goods: luxuries, absolute necessaries, and a midway group to which he assigned tea, the article chosen by him to prove inductively his claim concerning the prosperous state of the country. Although he never used such expressions as "elastic" or "inelastic" demand, his assumption was

[1] Speech on the Tariff, April, 1824, *Works of Webster*, vol. iii, pp. 96-100.

that the consumption of tea varied directly with the condition of prosperity and adversity. His conclusion, derived by taking the statistics of imports and exports of tea over a number of years as an estimate of total consumption, was that the quantity consumed between 1790 and 1824 increased both absolutely and relatively, signifying increased consumers' prosperity in respect to that class of goods neither luxuries nor necessaries. Although Webster's method seems to be well grounded, the validity of his conclusion can be called into question because of his arbitrary assumption that tea was not an absolute necessary, to a great number of individuals.

Webster, then, recognized a definite scale of human wants. First such indispensable requisities of human existence as food, clothing, shelter, and fuel must be cared for. Above them lay a group of wants, between luxurious and necessary desires, to which Webster gave no particular designation. Next came the luxury class, and, finally the non-material, or what he called spiritual and intellectual wants. He was inclined to measure prosperity according to the degree of participation by the populace in the last named group of satisfactions. He believed that emancipation from unceasing toil to provide the basic means of subsistence could be accomplished in a prosperous society, thus making possible the cultivation of the " higher " spiritual cravings. Finally, it should be added that Webster did not look with favor upon a class of people who wallowed in luxury. In one place, he spoke of wealthy absentee capitalists as " idle drones ". He did not, however, challenge luxurious expenditures as unlawful or even improper but he did charge them with a failure to benefit directly the whole community except insofar as they did yield some employment to labor. Far more, would he prefer to see capital, instead of being wasted on luxuries, invested in corporate enterprises where it would be employed

to produce goods for general consumption.[1] Only insofar as it furnished capital to economic enterprisers would Webster pronounce a leisure class to be productive, and socially desirable.

[1] Lecture before the "Society for the Diffusion of Useful Knowledge" at Boston, November 11, 1836, *Writings and Speeches*, vol. xiii, pp. 63-78.

PART II

Economics of Production

CHAPTER I

General Opinions Concerning Production

The subject matter of the second part of this treatise is composed of a variety of topics which bear upon the production of wealth and concerning which Webster expressed some opinion. It involves a study of Webster's thoughts on the different forms of productive enterprise, of his general theory of production, and of his views concerning distribution, the machine technique, the corporate principle, capital, labor and its problems. In handling each of these topics, it has been necessary to allot time and space unevenly owing to the fact that Webster discussed some of them more fully and explicitly than he did others.

Whenever Webster spoke of the production of wealth in general, he was mindful of both individual and national points of view. The national wealth he regarded as the aggregate of all the wealth belonging to all individuals, but, as an individualist himself, it was easy for him to perceive that no individual was consciously aware that he was contributing to the aggregate. "Individuals seek their own good, not any artificial aggregate of national wealth." [1] Although the enlargement of the national wealth was one of his strongest desires, he did not ignore the existence of a problem of distribution. To him, the latter was "quite as important" as accumulating a large aggregate.

Webster was not meticulously accurate in defining wealth. In one of his greatest speeches, wealth was described as "the

[1] Speech on a bill to extend the Cumberland Road, January 18, 1925, *Writings and Speeches*, vol. xiv, p. 99.

general doctrine of political economy" and was rather ambiguously defined as "those things essential to man's well being and comfort" and as "all that was useful and convenient to man." [1] Perhaps Webster's frequently expressed phrase, probably borrowed from Ricardo, that "labor is the producing cause of all wealth" helps to lessen the ambiguity of his definition. According to this phrase, only those goods created by labor would be classed by him as wealth, to the exclusion of "free" goods and of potential and undeveloped resources. Of the latter he said, "they are not wealth until labor brings them out and makes them wealth." [2] From the national viewpoint, Webster betrayed a quasi-mercantilistic trait by including the population of the United States in the category of wealth. The productive resources of a country, he listed as, first of all, its labor, and then its natural resources, its capital, credit, and confidence. He was disposed to place great emphasis upon general business confidence as a productive force.

I. OPINIONS OF COMMERCE, AGRICULTURE, MANUFACTURING

Having spoken of a few fundamental concepts, it is possible now to turn to a discussion of Webster's opinions upon the different forms of productive enterprise. Webster displayed no inclination to accept the classical distinction between productive and unproductive labor. All economic groups rendering useful service were looked upon as indispensable and interdependent elements of one harmonious society. "All great interests are united and inseparable and will prosper or languish together." [3] More poetic was his

[1] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 438.

[2] Speech on the reduction of the duty on coal, February 24, 1837, *Works of Webster*, vol. iv, p. 310.

[3] Speech on the Tariff, April 1, 1824, *Works of Webster*, vol. iii, p. 96.

expression that "commerce, agriculture, and manufacturing are intertwined around the same column and supported by the same trunk—must flourish or fade together." [1] On the basis of the interdependence of occupations, Webster advocated absolute impartiality on the part of the federal government in the dispensing of privilege. He attacked protection because he feared manufacturing would surpass other enterprises in national importance. However, Webster himself was not innocent of expressing preference. As a representative of what was, until 1824, primarily a commercial community, he was convinced of the general superiority of commerce over other occupations. Numerous citations from the free-trade speeches could be made here to prove this point. On more than one occasion he informed his public that "it must not be forgotten that we are a commercial people" and that "commerce is the truest and best support of the government revenues and of general prosperity." [2] Again, Webster's ready defense of commerce when it was charged with being the "non-self-supporting, pet, spoiled child of the constitution" disclosed his high regard for it. He responded that commerce antedated the constitution and that, rather than a creature of government, it was one of the main causes for the establishment of the constitution.

Second only to his great admiration for commercial enterprise came his high esteem for agriculture. Webster was not in any sense a Physiocrat, exhibiting scarcely the faintest trace of French influence. He lauded agrarian occupations because the low price of land would give to all the opportunity to become property holders and to acquire a stake in society. It may be truthfully said, furthermore, that his rev-

[1] Speech before the Baltimore merchants on behalf of American shipping, May 18, 1843, *Writings and Speeches*, vol. xiii, p. 151.

[2] Speech on the Tariff, April 1, 1824, *Works of Webster*, vol. iii, p. 133.

erence for agriculture sprang in large measure from a strong distaste for manufacturing. Before Webster became a rigid protectionist in 1828, he heaped lavish praises upon agriculture as an occupation superior to manufacturing, though he did not ignore the indispensability of the latter. Early in his public life, as a free trader, he was moved by the potential and actual evils of industrialism to oppose its rapid growth in the United States. Later, as a protectionist, he apparently forgot its grave abuses and serious disadvantages. His earlier opinions of the factory system merit considerable attention and are now to be taken up.

One of the arguments of the early protectionist school in the United States maintained that protection was merely a temporary device, established to encourage young industries. With characteristically far-sighted vision, Webster challenged this view. "True wisdom looks to the end." [1] The application of this precept led Webster to see protection as a permanent policy because manufactures once created by high duties would be ruined in the event of abolition of the protective measures. Apparently, he entertained no great faith in the infant industries argument since he nowhere gave it extensive consideration. The possibility of permanently adopting the protectionist principle repelled him, primarily because it would accelerate, beyond the "natural" rate, the development of the factory system. Without doubt, the standards of living of the English working population influenced his opinions on industrialism, for he said, concerning these conditions abroad, "what can be seen of it elsewhere does not recommend it to the United States." [2] A lugubrious picture was painted by him of the future state of the American people as a great manufacturing population

[1] Speech on the Tariff, at Faneuil Hall, Boston, October 10, 1820, *Writings and Speeches*, vol. xiii, p. 18.

[2] *Ibid.*, p. 19.

under an industrialism artificially developed by protectionism. "If it comes naturally, it must be met but why hasten it?" he asked.

Such alarmist sentiments, expressed in 1820, were not the earliest warnings against a headlong rush into manufacturing and an abandonment of the more noble occupations, commerce and agriculture. In 1814, he said: "in respect to manufactures it is necessary to speak with precision. I am not, generally speaking, their enemy. I am their friend." Experiencing no desire to rear them in "hot beds," however, he did not advocate pushing capital into extensive manufactures faster than the general progress of wealth and population propelled it. "I am not in haste to see Sheffields and Birminghams in America." [1] He asserted that such establishments would be impracticable in America or, even if practicable, very unwise. He preferred, to judge from his remarks down to 1825, that the American laboring population employ themselves in the wholesome fields where they could hear the "bleating of the sheep" and the "voice of the lark" and he admonished them against the "close workshops, the dust, smoke, the steam" and the "perpetual whirl of spindles and grating of rasps and saws." [2] In justice to Webster, it should be stated that his declarations were moderate. He was not arguing for a purely commercial and agrarian civilization but for a well balanced economic society in which manufactures would develop "naturally" and slowly.

Webster had other reasons for opposing a factory system "pushed to excess." In the first place, he feared that the equitable distribution of property would be displaced by inequality and concentration through the herding of people

[1] Speech on the Embargo, April 6, 1814, *Writings and Speeches*, vol. xiv, p. 43.

[2] *Ibid.*, p. 45.

into employments " which tended to make the poor both more numerous and still poorer, and the rich, less in number and perhaps more rich." [1] Webster at a later date adhered to precisely the opposite view in maintaining that industrial wealth was diffused as widely as agrarian property. In the second place, Webster declared that manufacturing capital did not encourage industry like other capital. He cited what was alleged to be an actual case of a factory where a half million dollars were invested and only two hundred and sixty-five were employed. He thought that agriculture or commerce with the same capital would create a much greater demand for labor. In commerce, he said it would double because of the indirect demand for ship builders and raw materials. It is not easy to account for Webster's failure to state that manufacturing, as well, could establish an indirect demand for labor. Until Webster became a protectionist, he clung to his conclusion that capital was more productive and afforded higher wages in commerce and agriculture than in manufactures. It must be conceded that the evidence he offered to support this conclusion was of the most unsubstantial character.

Finally, Webster rested his case against industrialism on moral grounds. He called attention to the masses of propertyless industrial workers of Europe who, having no stake in society " hang loose upon it." He also was alarmed over the danger of moral deterioration of an industrial population and attempted to justify his fears by indicating the greater number of jail commitments in the industrial centers of England as compared with the number made in an agricultural population. Webster evidently believed firmly in the social and environmental theory of criminal origins. Furthermore, he regretted the employment of women and children, holding that the factory system imperiled their health and

[1] *Writings and Speeches, op. cit.*, vol. xiv, pp. 35-46.

morals and he expressed a sincere, but somewhat mild, approbation of the British factory code. Not a single allusion was made to the destruction of the fine art of craftsmanship as a serious defect of industrialism. Webster could have been by no means entirely dissatisfied with the beginnings of industrial society in America when he is observed praising the " excellent " New England factories for exercising " all possible care regarding the moral habits of the persons employed." The fact remains, however, that Webster, in general, saw industrialization and urbanization accompanied by moral degeneration.

2. GENERAL THEORY OF PRODUCTION

Speaking before a Boston literary society in 1836, Webster presented an interesting, and in some respects original, exposition of what may be called a theory of production. By this time, he had been obliged to alter many of his older opinions of the factory system because, in spite of his opposition, it had grown rapidly in the twenties and thirties, and he had no other choice than to make the best of it. After 1828, then, he defended industrialism and its advantages even though he probably experienced the same fundamental dislike for it which he had expressed before 1825. In commenting upon the vigor of the intellectual life of his day, as the main theme of the 1836 address, he attributed its cause to the abundance of leisure time made possible by an improved productive mechanism enabling man to satisfy more easily his basic physical needs. The rapidly increasing national wealth, caused by this system, he confidently assumed, with no further proof than that it was " a matter of common observation," was diffused equitably among all. This fact, in his opinion, explained the high cultural standards of the American people. Thinking that " wealth ordin-

arily is a slow and painful process",[1] he wished to inquire into the extraordinary growth in the wealth of the United States, an inquiry which led him to present his general views as to the origins of wealth.

The basic cause for the great increase of wealth Webster believed to be the "successful application of science to art" by which he meant the application of the precepts of science and technology to production. In placing emphasis upon scientific doctrines as productive agencies, he by no means intended to subordinate the other instrumentalities, human effort and natural materials. Science and raw materials he regarded as passive agents while human labor was the active force. He was in complete accord with "the general doctrine of writers on political economy" that labor constituted the origin of all wealth. Repeatedly he urged the following, or words of the same meaning, upon his hearers: "labor is the true source and the only source of wealth."[2] Substances furnished by the natural elements, water and earth, he did not classify as wealth but as the materials of wealth. "Labor alone obtains them, works upon them, and fashions them to the uses of man." "Soil fertility is nothing until labor cultivates it; iron in the mountain rock is of no value until the strong hand of labor has forged it into a manufactured article." The great producing cause, then, was labor described by Webster as the active dynamic agency operating upon passive materials. It would follow that anything augmenting the powers of labor would add to the production of wealth. The influence of the classicists respecting this point is obvious.

Labor alone, however, was not designated as the sole producing agency although it was named the active factor

[1] Lecture before the Society for the Diffusion of Useful Knowledge, at Boston, November 11, 1836, *Writings and Speeches*, vol. xiii, p. 66.

[2] *Ibid.*, p. 67.

and the underlying cause of wealth. As to what Webster considered the specific agents of production, it is difficult to state with accuracy. At one time, he was mindful of only two, nature and man; elsewhere, he spoke of labor, natural powers and materials, capital and credit; in other speeches general confidence was added to this list. He looked upon production as a vast cooperative enterprise in which he assigned labor to a position of predominance.

With respect to the general origins of wealth, there appear to be no discrepancies between Webster and the classicists Still, there was one very interesting distinction, to be found in the interpretation placed by the former on the word "labor." Very rarely did the great orator mention the names of the masters of political economy to whom he often turned for support. In the 1836 address, he specifically named Adam Smith and some of his followers, taking them to task for narrowly construing "labor" to mean only the effort of artisans, farmers, and other productive classes. Webster, conceding that his point of view was "quite philosophical," interpreted "labor" to include not only human toil but the work of any agency which could fashion raw materials for the use of man. The labor of the ox, the horse, and the steam-driven automatic machine were said to produce wealth as well as the labor of man; it made no difference to him, as far as productiveness was concerned, whether the labor power be human or mechanical. According to this view, machinery and tools would be classed as labor, not capital. Because of this fact, it is clear that there is no inconsistency between two important opinions of Webster; first, that applied science was the basic cause of the increase of wealth in the United States, and, second, that labor was the producing cause of all wealth. Technological devices in industry he would actually consider to be "laborers." He even saw another similarity between machinery

and labor in that both were purchases of capital, by which he meant pecuniary capital in the form of credit; the only distinction admitted by him to be that machinery was like slave labor owned directly by capital while human labor was not. Lest too severe criticism be heaped upon Webster's head for grouping indiscriminately,—as members of the same class of producers, — animals, machines, and human beings, it must be recalled that he contrived a "quite philosophical" definition of "labor." In most discussions, the word was construed in the usual sense to signify human toilers only. That he was sincerely solicitous of their welfare cannot with justice be denied.

CHAPTER II

Opinions on Specific Aspects of Production

I. machine technique and its consequences

Webster's observations on the machine technique and its alleged benefits are worthy of respect and consideration. That he was favorably disposed toward the use of machinery was shown in his splendid speech of 1836 before the Boston literary society. He could not have been so enthusiastic all his life over the machine principle, else the noble expressions of the free-trade speeches in which he opposed its rapid growth in this country and referred to the "unwholesome workshops, the whirl of spindles, and the grating of rasps and saws" would be meaningless. His expressed opinions concerning machinery, like those of industrialism as a whole, underwent a change after the abandonment of the free-trade cause. Following that occurrence, almost nothing but praise was given to the automaton in industry as a device relieving man of many burdens and enabling him to reap the fruits of leisure time. He attributed the beginnings of material improvement and popular education to the birth of the mechanical era. He hailed the Industrial Revolution as a great blessing and elevated Arkwright to a place among the immortals. "Arkwright deserves to be regarded as the benefactor of mankind." [1] Why he ignored the other great inventors and assigned so much honor to Arkwright is not known.

[1] Lecture before the Society for the Diffusion of Useful Knowledge, Boston, November 11, 1836, *Writings and Speeches*, vol. xiii, p. 69.

A more detailed description of Webster's impressions about the automatic "allies and auxiliaries of man" may be of some value. Webster may be said to have observed a threefold advantage to the capitalist employer in machine production. The first one was the increase in productivity and economy of time. He insisted that machines were not "labor saving" but "labor doing," working with man rather than stealing his job and were to be counted as so many other factory employees. The second advantage related to accuracy of results. Machines, guided by exact scientific law, could produce more accurately than the human hand and, in addition, were tireless and continuous workers. In the third place, Webster observed that science multiplied laborers without multiplying consumers, a happy fact which he ascribed to Divine Providence. These millions of mechanical "laborers" produced for man but did not consume and all their earnings fell to man himself.

Part of this analysis of the advantages attached to machine methods seems scarcely worthy of Webster's great intellect. First of all, his statement that automata were producers and not consumers contained a fallacy which he ought to have noticed. He apparently forgot to say that a machine must be produced, a process drawing labor away from other activities and that during its period of usefulness it must consume both labor and capital to properly operate and repair it. Again, the important matter of loss through obsolescence was completely ignored. In the second place, the admitted tendency of technical devices to displace human workers and depress wages, even though for a short run of time, and thus diminish the number of effectual consumers, was scarcely recognized. Even the brief comments on this problem were favorable to the machine. It was his opinion that only a very few simple operations could be taken over by machinery and, further, that if machinery were used human labor would

not really be displaced at all but would be occupied in using it.[1] For another reason, Webster's analysis possesses shortcomings. It omitted the treatment of such problems as the effects of machine industry upon unemployment, wage rates, trade unionism, and industrial crises. His opinions of these questions would have been exceedingly interesting. Perhaps, it is expecting too much that Webster, or any other American of his period, should be capable of passing judgments upon such issues. Lack of experience in a young country with the machine industry, the comparative scarcity of labor, and the absence of intense competition between man and machine may partially explain the deficiencies of Webster's evaluation of the machine technique.

Webster was aware of other consequences of the regime of "applying science to art," those of a broader and more general character. One of these, dealing with his assumption of an equitable distribution of industrial wealth, exhibited his fundamental optimism as to the workings of a complex industrial system. After the prolonged, and in some respects careful analysis of production, the brief and sublimely confident explanation of the distribution process by means of simple general formulae is keenly disappointing. Diffusion of manufactured goods was presumed to be a natural automatic counterpart of machine production. What were the specific forces accomplishing this diffusion and how they operated, he did not scientifically explain. The only elucidation he offered can be reproduced here in his own words. "Wealth is diffused and reaches all classes." "The poor are benefitted more than the rich by the cheap and abundant means of subsistence."[2] He often said: "the

[1] Speech on the Tariff, April 1, 1824, *Works of Webster*, vol. iii, p. 141 *et seq.*

[2] Lecture before the Society for the Diffusion of Useful Knowledge, Boston, November 11, 1836, *Writings and Speeches*, vol. xiii, p. 72.

spirit of our laws and institutions accomplishes this," that is, the broad distribution of wealth. Again, "there is no monopoly in science," meaning that the power to acquire wealth was within the reach of all, in that every producer had a legal right to use mechanical processes. He did not say that economic pressure might prevent the utilization of this privilege. In the first Sub-Treasury speech, delivered in January, 1838, he did mention certain general forces as working to diffuse wealth: "excessive concentration is prevented by the liberalizing laws of inheritance and the ease of transferability of property, by high wages, by low prices of land, by democratic government, and by education." [1] Elsewhere, he said that credit kept capital in a fluid state and so helped to distribute the fruits of industry. He was treading upon dangerous ground when he ventured the opinion that "as history shows" commerce and manufacturing would not mean concentrated ownership.

It should be stated that Webster did not desire absolute equality, nor did he fail to see that diversities of individual character would make this impossible. "There is room for the accumulation of wealth with its great advantages," he said, bearing in mind chiefly the cultural and philanthropic advantages reaped by society under a policy of "richesse oblige." [2] He defended those rich individuals who won their wealth by their own industry but in general did not regard favorably accumulation of property through inheritance. His definition of a "rich" man was one who was worth approximately fifty thousand dollars, adding that this was true, at least, in his "hard working profession." Finally, it was his belief that twenty-nine out of thirty members

[1] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 429.

[2] The Plymouth Oration, the First Settlement of New England, December 22, 1820, *Works of Webster*, vol. i, p. 39 *et seq.*

of the well-to-do class accumulated their wealth by means of their own efforts.

With regard to the distribution of agricultural wealth, his explanation was analogous to that offered in connection with industrial wealth. He thought that the inheritance laws, property-transfer laws, and the public land policy of the United States would guarantee a wide diffusion of landed property. He explained how land holders were benefited by the mechanical era in that land values of the south and west had increased on account of the power loom and the cotton gin. In speaking of distribution, Webster always had in mind individual and personal rather than class or functional division. The subject of distribution has been discussed in this part of the dissertation because Webster linked it closely to his analysis of production and technology.

Another significant outcome of the machine industry, as visualized by Webster, was the creation of a huge market able to absorb the augmented output. This was held to be an essential feature of industrialism in order that the capital invested in plant be made profitable to the owners. Webster appears, in this statement, to have confused effect for cause and means for ends, first, because he did not say that a wide market was as much a cause as a consequence of quantity production; and, second, because of his intimation that a broad market must exist to insure profits to the owners of machine capital. Other statements of Webster, however, left no doubts as to what he believed to be the status of the machine and its owners as man's servants and not his masters.

Finally, a third inevitable result of the mechanical age was said to be the concentration of industrial capital and the growth of large producing establishments. This view is not inconsistent with his frequently expressed belief that all wealth was widely diffused in the United States. Webster did not mean concentration of ownership here. In fact, he

asserted the "equalization of property" in the nation to be one of the reasons for the existence of a small number of producers with borrowed and invested capital sufficient to create large establishments. He clearly saw that the machine industry meant big business with economy in operation and increasing money return. "Experience shows that large capitalists can produce cheaper than small ones, especially in cotton and woolens" by the creation of great economies of operation.[1] He hoped that the principle of concentration of capital would not be opposed by the American people because "mechanical power, a great boon to civilization, is vitiated without the cooperation of aggregate wealth."[2]

Upon these grounds and in terms of the welfare of the majority, Webster defended and enthusiastically upheld the idea of corporations. "The union of capitals and aggregation of wealth which are indispensable are conveniently effected by the corporation."[3] A corporation he defined as "a partnership regulated by law" meaning that anyone may become a participant as one of the owners. Webster was irritated by the attacks directed against corporations by some members of the laboring classes and declared that charges of "overgrown corporations" were "un-American" and "un-Massachusetts like." He maintained that the very group which assailed corporations was that one most directly benefited, since large corporations could offer employment and also produce goods at low costs. The Utilitarian influence is displayed in the following remark: "Anyone who complains of this mode of employing wealth in large aggregates acts against the greatest good for the greatest number."[4] He flayed the violence and sabotage committed

[1] Lecture before the Society for the Diffusion of Useful Knowledge, Boston, November 11, 1836, *Writings and Speeches*, vol. xiii, p. 73.

[2] *Ibid.*, p. 72 *et seq.*

[3] *Ibid.*, p. 73.

[4] *Ibid.*, p. 74.

by European workers upon machinery, denouncing such action as "folly, injustice, barbarism, and ignorance."

Webster recognized three classes of corporations, first, special corporate privilege of a monopolistic character of which he did not approve; second, private corporations possessing monopoly rights over canals, turnpikes, and railways; and third, the large class of industrial and mercantile organizations having a corporate existence but, like partnerships, open to all. The chief advantages of corporations, in addition to the others previously discussed, were said to be found in the small denominations of shares enabling anyone to purchase and easily sell, and in the variety of investment forms to suit all tastes. Each individual, then, could contribute in proportion to his wealth—an admission by Webster that his "equality of property" did not exist. In pointing out the superiority of American economic life over European, as he loved to do so often, Webster contrasted the large number of shareholders in private enterprise in the United States with the heavy investments of the English and French people in the public debt. His unalterable opposition to the principle of the public debt accounted for this invidious comparison. A final advantage possessed by the corporation, according to Webster, was its power to contribute toward the equalization of ownership. The rich were not entrenched behind corporate privilege and the poor left outside, since "our system of granting charters for manufacturing to all who apply is the most remarkable invention ever produced in the history of civilization to place those who are less rich on an equality with those who are born rich." It seems incredible that Webster did not realize the limited applicability of this proposition. Whether he did or not cannot be proven; at least, he said nothing to indicate that he did.

[1] Argument in the Boston and Lowell Railroad Case, January 20, 1845, *Writings and Speeches*, vol. xv, p. 381.

To conclude, Webster, in the interests of social harmony, desired the withdrawal of any opposition to machine industry and the corporate principle. His analysis of production and his tendency to underestimate the social evils due to the use of machinery illustrated again his faith in a harmonious economic society. That there were opposing interests in the community or that labor and capital were enemies, Webster steadfastly refused to concede. The laborer in 1836 was considered by him to be living on a higher economic scale than ever before due to reduced costs of living. He seemed to think that this fact was ignored by the political economists, since he said: "this fact baffles the dogmas of political economy and should occasion the writers on that subject to qualify their theories." [1] Doubtless Webster was alluding to the pessimistic conclusions of Ricardo and Malthus regarding wages, distribution, and population.

2. LABOR AND ITS PROBLEMS

Expressions pertaining to labor and its welfare occur abundantly in Webster's speeches and writings. His profound, and to all appearances sincere, respect for labor of all kinds can be illustrated by a few typical passages. As has been pointed out, he considered labor to be "the great producer of wealth, moving all other causes." "The greatest interest in this great country and the producing cause of all its prosperity is labor! labor! labor!" [2] Again, he said: "our destiny is labor. The first cause of prosperity is employment." [3] It should be stated that Webster's "labor,"

[1] Lecture before the Society for the Diffusion of Useful Knowledge, Boston, November 11, 1836, *Writings and Speeches*, vol. xiii, p. 75.

[2] Remarks on the Removal of the Deposits, January 30, 1834, *Works of Webster*, vol. iii, p. 535.

[3] Speech on the Walker Tariff, July 25, 1846, *Works of Webster*, vol. v, p. 227.

in general, embraced all human effort, manual, professional, intellectual. More often he meant manual labor only. He was usually very clear as to the precise meaning he attached to the word at different times. In one speech, for example, Webster, in criticizing the administration for injuring the national currency by the removal of the government deposits in 1833, expressed the opinion that depreciation of the currency and sudden changes in price would do greater harm to the class which "earns daily bread by daily toil" than to other classes.[1] In another passage, suggestive of Karl Marx, he explained that "capitalists will not suffer like labor; they may either prey upon earnings of labor or they may hoard. The laborer cannot hoard. Preying on no one, he becomes the prey of all."[2] Webster, of course, did not mean direct exploitation in the Marxian sense, so much as the indirect effects upon workers' real incomes, to the advantage of the speculator and the capitalist, occasioned by the depreciation of currency. At another time, he took up the division of labor from the worker's viewpoint. His major criticism was that it rendered the worker excessively dependent on the employer. "The trite example of the eighteen persons producing the common pin," to which he alluded, can be none other than Adam Smith's. Although he did not mention monotony and loss of crafstmanship, he did not enthusiastically uphold division of labor from the worker's standpoint.[3]

While very little was said by Webster about general population problems, he did speak of the place of population in the national economy. His disposition to include popula-

[1] Remarks on the Removal of the Deposits, January 30, 1834, *Writings and Speeches*, vol. vi, p. 267.

[2] *Ibid.*, p. 267.

[3] Speech on the Embargo, April 6, 1814, *Writings and Speeches*, vol. xiv, p. 44.

tion in the category of national wealth has already been indicated. At any one time, he thought that the population of a country was a fixed quantum—" no nation has more than a certain quantity nor can it be increased at will." [1] Each nation he went on to say, must determine how it can best use this quantity of labor. Unfortunately, he formulated no principles by which a country could be guided in making this determination. There is no evidence that he ever made a careful study of Malthus' population doctrines, nor did he advance any hypothesis as to the mathematical relationship between numbers and means of subsistence. No doubt, he would have disagreed with the Englishman's pessimistic doctrines. Overpopulation, he regarded as a relative and a local rather than as a universal problem. He thought that a nation's population and its food supply ought to be properly balanced and adjusted. As an illustration of maladjustment and its prime cause, he chose the economic situation in Ireland. The main causes for low wages and poverty in that country, Webster said were excessive population and an oppressive absentee landlordism. He disagreed with McCulloch on this point, a man whom he considered as " a highly distinguished authority." [2] He evidently saw no immediate danger of overpopulation in the United States when he said: " In Europe, the question is how men live; in this country, how well they live," and " such matters as comforts and luxuries do not arise to the political economists of Europe." Webster was not always fair in his appraisal of other countries when making his comparisons between the economic conditions of the old and the new world. With regard to the migration of peoples as a means of fulfilling

[1] Speech on the Tariff, April 1, 1824, *Works of Webster*, vol. iii, p. 141.

[2] Speech on the Walker Tariff, July 25, 1846, *Works of Webster*, vol. v, p. 229.

the needs of over and underpopulated countries, Webster had little to say. He always advocated European immigration of the agrarian type. In 1838, he opposed a bill to restrict the benefits of the public land policy to the native and naturalized citizen. Having disposed, rather summarily, of the comments upon population in general, it is now possible to turn to a discussion of specific matters concerning labor.

Since Webster did not possess a disposition to create theories, it is not surprising that no wage hypothesis can be found throughout his works. The nearest approach to one lay in his explanation of the high money and commodity wages in the United States which he attributed to specific circumstances such as the scarcity of and the acute demand for labor, abundant resources, free lands in the west competing with the industrial demand in the east, quantity production and broad distribution, and, finally, in no small measure he ascribed high wages to the American political system of democracy, liberty, and individualism. Of the economic factors, the limited supply of labor was esteemed to be of fundamental importance insofar as it contributed to a condition of independence and of strengthened bargaining ability for the worker. He believed that "labor in the United States is independent and proud; it does not seek the patronage of capital. Capital seeks labor." [1] He did concede that the larger industrial cities provided an exception to this. In his speeches supporting protection, Webster urged the diversification of industry as a means of guaranteeing employment and raising wages, evidently failing to perceive the fallacy of such a claim.

By his references to the bargaining by labor for good wages Webster meant individual and not collective action. His conservatism led him to oppose forcibly the principle

[1] Speech on the Tariff, April 1, 1824, *Works of Webster*, vol. iii, p. 141.

of collective bargaining. Only one clear statement of Webster's position on labor organizations has been detected in his works. He was unqualified in his disposition "to oppose vigorously and unceasingly all unlawful combinations or associations of men working in darkness and striving to obtain for themselves by combination and concert advantages not enjoyed by other citizens of the Republic." [1] Although Webster refused to endorse the principle of collective bargaining, he was not opposed to the establishment by other means of decent working conditions. He advocated a working day sufficiently short to grant opportunity to the laborers for mental development, though he did not indicate what the precise number of hours should be. Nor did he criticize high money wages, because of his realization that they meant greater consuming power and a prosperous nation. As he pointed out, ability to buy was even more important than cheap food and clothing.[2] However, he would not approve the achievement of high working standards through the medium of workingmen's combinations, partly because they suggested monopoly, a most abhorrent thing to Webster.

The unemployment problem was one over which he displayed some concern but no systematic analysis of causes or effective remedies was suggested. To be sure, the industrialization had not advanced by the thirties and forties sufficiently far to bring into bold relief the purely industrial sources of unemployment as they are known today. Webster saw as one potent but preventable cause any government action which would disturb the value of the national currency. In his long series of bitter arraignments of the Jacksonian fiscal policy relative to the deposit removal and

[1] "Objects," *Writings and Speeches*, vol. xv, p. 107. Original manuscript in possession of the New Hampshire Historical Society.

[2] Speech on the Walker Tariff, July 25, 1846, *Works of Webster*, vol. v, p. 227.

the abolition of the United States Bank in the thirties, Webster accused the government of unsettling local and national industrial conditions and of precipitating acute unemployment and falling wages. This circumstance he labeled an extraordinary cause of unemployment. Reference was made to the inevitable trade reaction as another cause which, unlike the preceeding one, he believed to be unavoidable. One more point must be added. After Webster had been won over to the protectionist policy he often warned that any lowering of duties would create unemployment. The Walker tariff of 1846, particularly, was condemned on such grounds as these.

While discussing labor, it may not be irrelevant to give brief attention to Webster's interesting statements concerning class warfare, a subject on which he expressed himself with no equivocation. The possibility of an economic struggle between rich and poor was called to his attention by the remarks of those who interpreted the removal of the deposits and the war against the Bank of the United States in terms of class antagonism. The number of people was by no means insignificant who believed that "the poor naturally hate the rich" and that the financial changes of the Jackson administration were actuated by a desire to free the poorer classes from the oppression of a "moneyed aristocracy." Webster described the charge of even the existence of such an aristocracy as "preposterous," and sprang to the defense of his view that American economic society was composed of fundamentally harmonious elements. He condemned those who preached the clash of interest between classes as heretical. To him, the bare suggestion of strife and rebellion between economic groups was abhorrent. His "wide diffusion of ownership" and his faith in general economic prosperity in this country he was assured would constitute invincible barriers to class antagonism and rebellion. A

passage from one of his great speeches, relating to this question, is reproduced here. "The wealth and prosperity of the country rest on a very broad foundation; there is no marked inequality for many reasons. First, because there is no clear and well defined distinction between capital and labor as there is abroad. In Europe, the distinction between capital and labor, and their earnings, interest and wages, is made not only in the science of political economy but also in fact." He continued at some length to point out that perfect fluidity existed in American society and that class lines and distinctions were mythical. "Labor can easily penetrate into the class of producers designated as capitalists. Its savings of yesterday become its capital of today." [1]

The treatment of Webster as a labor economist may now be brought to a conclusion. His views on the problems of industrial workers are impressive more for their interest than for their profundity and scientific value. Any omissions or shortcomings are explained partly by the comparatively immature state of industrialism during the most active years of his career, and partly by his own economic philosophy, which, when applied to some economic issues, tended to lead him away from realities. His characteristic far-sightedness failed him in respect to the efficacy and justice of trade unions. In general, he was prone to fall prey, as a politician often does, to the temptation of using glittering verbal generalities.

3. CAPITAL AS A FACTOR OF PRODUCTION

Webster used the word "capital" rather loosely and in various senses. In one place, capital was very broadly said to be composed of such personal and impersonal factors as

[1] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 429.

" opportunity, freedom, mild laws, health, and intelligence." [1] In many of the speeches on banking and finance, capital was expressed as a pecuniary concept—money, credit, and purchasing ability. The most scientific and representative view was that one given in the first speech on the Sub-Treasury in which the capital concept was defined in acquisitive terms as " that which returns income to the individual." By way of asserting his occasional lapse into non-conformity with orthodox economics he said: " this is not in the sense of political economy." [2]

Elaborating this position somewhat, Webster pointed out the existence of two kinds of capital; namely, passive or investment capital, yielding income without labor; and active capital placed at the disposal of labor and business enterprise for the creation of net income. He expressed deep gratitude that he was able to assign most American capitalists to the latter class; that is, the active group. However, he did find in every community, no matter how evenly the prosperity may be divided, a class which lived on income from investment. He said: " if this property be land, they live on rent; if money, interest." [3]

An interesting comparison was made between the type of passive investment in Europe and that in the United States, to the favor, of course, of the latter. Webster held that the heavy interest charge due to investments made by the European people in the permanent public debt constituted a grave burden upon the active industry and the taxpayers of the country. Webster assailed this form of passive capital

[1] Lecture before the Society for the Diffusion of Useful Knowledge, Boston, November 11, 1836, *Writings and Speeches*, vol. xiii, p. 63 *et seq.*

[2] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 430.

[3] *Ibid.*, p. 429.

because it kept funds away from the industrious classes who would use them as active capital. According to his definition of capital as being essentially acquisitive, Webster said that the mass of government securities could with justice be called "capital" from the individual point of view but at the same time he pointed out that from the national viewpoint, it was nothing but debt. By contrast, he indicated that the small number of passive capitalists in the United States assigned its funds to banks, railways, canals, and insurance companies. Thus, he said, capital is placed in active hands and becomes the basis of business. "It gives occupations, pays labor, excites enterprise, and performs all the functions of employed money." [1] Again, at another time, he said: "Labor is only sustained by capital and when this is withdrawn, it must suffer." [2] These opinions, fortified by many others made throughout his life, plainly reveal Webster's faith in the erroneous doctrine that wages are paid out of capital. Although he never mentioned it, it is safe to assume that Webster subscribed to the "wages fund doctrine" of the relationship between wages and capital.

Another remark relative to passive capital and the public debt principle is interesting by illustrating how his conservative temperament guided his thoughts. The amelioration of working conditions abroad, he suggested, would be accelerated by the abolition of the public debt entirely. "A quarter of the debt in the hands of the industrious classes would do more toward raising the character of the laboring classes in England than all the reforms of Parliament." [3] The general principle which underlay Webster's thinking in this

[1] Second speech on the Sub-Treasury, *op. cit.*, p. 430.

[2] Speech at Portsmouth, N. H., May, 1844, *Writings and Speeches*, vol. xiii, p. 214.

[3] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, pp. 430-431.

connection was that enlightened individualism, expressed through the medium of the active capitalists, was a more effective force in respect to social reform than social control. Webster seemed to manifest no hesitation in placing such a heavy social and moral responsibility upon the users of capital as the self-appointed guardians of the welfare of their fellow members in society. He had almost no fears of excessive accumulation and concentration of capital ownership. "Labor and industry lay hold of capital and break it into parcels, use it, diffuse it widely and instead of leaving it to repose in its own inertness, compel it to act at once as their stimulus and their instrument." [1] Webster's complacent assumption that all capital was wisely and beneficently utilized, both for individual and social betterment, never seemed to depart from him.

[1] Second speech on the Sub-Treasury, *op. cit.*, p. 429.

PART III

Economics of Exchange

CHAPTER I

MONEY, CREDIT, CURRENCY

SINCE Webster, as a rule, was not disposed toward the creation of general hypotheses and theories, very little is to be found in his works dealing with the doctrines of value, the "laws" of markets and of supply and demand. With respect to value, he often appeared to incline toward a labor theory in the Ricardian rather than the Marxian sense. He distinguished between "marketable and intrinsic value" [1] and between monopolistic and competitive price, explaining that the latter was determined by the natural forces of supply and demand. In one of his lesser speeches, he advanced a conception of a pure market in which only one price could prevail for the same grade of commodity at the same time, foreshadowing somewhat the Jevonian analysis. Webster's finest contributions to the economics of exchange lay in his profuse verbal expositions on the problems of money, credit, currency, banking, trade and tariff. A study of these extensive commentaries constitutes the subject matter of Part III of this dissertation, which is divided into five chapters; first, money, credit, and currency; second, banking; third, international trade; fourth, tariff views from 1814 to 1828; and fifth, tariff views after 1828.

I. MONEY

Money and "credit in some form as its substitute" were held to be the "universal representative" found in every ad-

[1] Speech on the Specie Circular, December 21, 1836, *Works of Webster*, vol. iv, p. 282.

vanced commercial community and "constantly passing between its citizens." [1] He meant by this that money was to serve as the representative of the property, resources, and wealth of the nation and that circulation of money would be tantamount to the transference of property from hand to hand. The significance to society and to the individual of the money and credit economy could hardly be overestimated, in the opinion of Webster. "Without this agency nothing can be bought and sold; capital has no income and labor no reward; it would not be possible to maintain ordinary business between man and man." [2] Perhaps Webster was guilty of esteeming too lowly the intensity of economic activity which may be attained under a primitive barter economy. With respect to the money economy, one point must be added, the importance of which Webster stressed with unreserved emphasis at frequent intervals. He demanded that the monetary system possess one quality above all others—stability. The use of money, to him, was far more than a mere passive agency to facilitate exchanges; it was a social institution serving a definite social and even moral purpose, namely, the preservation of what he called "the very foundation of society—property". He said: "it is indispensable for every man of property and industry that a sound currency be established since property must have a real and substantial representative". The exchange medium of the nation must be of that type which "is not liable to vibrate with opinion or be blown up or down with the breath of speculation." [3]

[1] Speech on Bank of United States, March 18, 1834, *Works of Webster*, vol. iv, p. 87.

[2] Speech delivered in the Senate on March 18, 1834 on moving for leave to introduce a bill to continue the Bank of the United States for six years, *Works of Webster*, vol. iv, p. 87.

[3] Speech on the bill for renewing the charter of the Bank of the United States, May 25, 1832, *Works of Webster*, vol. iv, p. 394.

One of the principal functions of money, Webster thought, was to fulfill the needs for an exchange medium and to be in constant use. "The use of money is in the exchange. It is designed to circulate, not to be hoarded." [1] A fairly precise notion of the nature and uses of money was outlined in Webster's discussion of the qualities of a good circulating standard of value. He explained that a good metallic medium should possess the following qualities: it must be the medium of other commercial communities or easily convertible into other standards without loss; it must pass in payments among individuals of the same society but also must adjust and discharge the balance of exchanges between nations, that is, it must have value abroad as at home. He did not speak of durability and portability and other conventional attributes. The purposes which he thought money should serve could alone be answered by the precious metals. They, and nothing else, were money, in his opinion. Bank notes were not money in the technical sense but "substitutes for money" only, of course, as long as they were convertible on demand. In 1838, he did say that "bank notes are regarded as money not only by the community but by law, as in bankruptcy cases" but in the economic sense he never considered them otherwise than as substitutes.[2] At this same time, he indicated that there were no more than four direct uses of specie in large amounts: the adjustment of balances between cities, the adjustment of balances in international trade, the use of specie to carry on a particular branch of trade, as the oriental, and its use in hand-to-hand circulation. To function as the reserve for the currency would be the most important of the indirect uses of precious metal. It should be

[1] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 455.

[2] Speech on the Collection of the Revenue, May 29, 1838, *Writings and Speeches*, vol. xiv, pp. 256-270.

explained precisely what he meant by "currency". While money in the technical sense included only the precious metals discharging international as well as national duties, Webster's term "currency" embodied not only gold and silver but bank notes, bills of exchange, and all that adjusted exchanges and balances in trade and business.[1] His "constitutional currency" was his own expression for "legal tender" which, in the United States, he said, could be nothing but gold and silver at rates regulated by Congress. This he esteemed to be a fact of "the very highest importance" and a principle which "ought to be preserved sacredly under all circumstances".[2]

Webster, then, was an advocate of a metallic standard of value. Nowhere in his works can there be found an elaborate comparative study of bi-metallism and mono-metallism. Once he spoke of the "cumbersome and expensive" bi-metallism, thus implying a preference for the single gold standard. He did not appear to possess great faith in the ability of the two metals to maintain themselves at a fixed ratio. Although he referred repeatedly to the principle designated as "Gresham's Law," never using this appellation, however, he did not observe, or at least express, its application to the operation of bi-metallism. Perhaps it would be of interest to show at this point how he expressed himself with respect to this principle. One of the best statements is contained in a speech on the United States Bank in 1832. He said: "Universal experience proves that of two things which may be current, the cheaper will always expel the other." Silver, he had observed, being cheaper in this country had expelled much gold from circulation. The same principle, he explained, would operate if two sorts of paper were in circu-

[1] Speech on the Specie Circular, December 21, 1836, *Works of Webster*, vol. iv, p. 270 *et seq.*

[2] *Ibid.*, p. 271 *et seq.*

lation side by side. " That which is cheapest always drives its more respectable associate out of its company." [1]

2. CREDIT

Wide use of credit instruments was a necessary feature of a good monetary system, according to Webster. Credit, as the elastic and flexible element in the system, was regarded as the supplement and representative of metallic money. In general, the whole credit mechanism was described as " most delicate, sensitive, intensely ramified and touching everything, the most important agent of general prosperity ".[2] Webster showed that credit was a creation of modern civilization, to be found only in the best governed and most enlightened nations. He spoke of the evolution of society from a barter to a money economy in which iron, then silver, and later gold were used as standards, and finally into the present stage wherein credit was introduced to represent value and economize in the use of specie. " As hard money represents property, so credit represents hard money and is capable of supplying the place of money completely." [3] Webster did not mean by this that he was favorable to an exclusive paper system nor did he approve, on the other hand, an exclusive metallic currency.

He defined credit by what work it could perform and what fruits it could yield in society. His vigorous enthusiasm for the credit system can be shown best by setting down some of his own words. " Credit becomes the great agent of exchange " and " is the vital air of the system of modern commerce ".[4] He believed that credit had done more by a thou-

[1] Speech on the bill for renewing the charter of the Bank of the United States, May 25, 1832, *Works of Webster*, vol. iii, p. 401.

[2] Speech delivered in the Senate on March 18, 1834 on moving for leave to introduce a bill to continue the Bank of the United States for six years, *Works of Webster*, vol. iv, p. 92.

[3] *Ibid.*, p. 89.

[4] *Ibid.*, p. 89.

sand times to enrich nations than all the natural resources of the world. " It has excited labor, stimulated manufacturers, pushed commerce beyond the seas." It was interpreted as an active agency generating prosperity and developing the country. There was scarcely a limit to the wonders which credit could perform, according to Webster. Like money, its use was regarded as a social institution spreading widely the general welfare. " The credit system is that which connects labor and capital by giving to labor the use of capital." That is, for those men who have no capital, credit, " the beneficent agent " could supply its place. Webster was fond, at times, of issuing alarmist pronouncements. To demonstrate the indispensability of credit, he painted a verbal picture in which the " beneficent agent " was absent. " Without credit, capital would be withheld from active employment and this would diminish the rate of wages." Again he expressed his belief that wages were paid out of capital and thus he made labor's well being dependent upon credit and capital. " Take away credit and nothing is left for labor but manual toil and daily drudgery," and finally, " if we abolish credit we shall divorce labor from capital, and when we divorce labor from capital, capital is hoarded and labor starves ".[1]

Credit was not only regarded as a productive agent but also was held to be able to increase consumption by anticipating products and by supplying present wants out of future means. Webster entertained a naive faith that credit, whether for consumption or production, automatically found its way into the hands of those of good character and would be used wisely. There were many parts to the credit mechanism, bank circulation, government paper, bills of exchange, and promissory notes, all of which made up a homogeneous whole. Credit, he stated, must rest upon a specie basis, the

[1] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 432.

latter mobilized through bank deposits, bank capital, and government deposits.

3. MIXED CURRENCY SYSTEM

Although Webster advocated a sound monetary system, he was not a member of the "hard money" school. He said: "I am of the opinion that gold and silver constitute the legal standard of value of this country." [1] Yet he saw no reason for using only specie as active circulating media. In Wall Street he once told his hearers: "I hold the opinion that a mixed currency composed partly of gold and silver, partly of good paper redeemable in specie at all times on demand and not issued to excess is the most useful and convenient for such a country as we inhabit." [2] He had consistently expressed himself in this same way for at least twenty-five years. In general, his policy was to favor abundant specie circulation to finance the smaller transactions, and to supplement this circulation with bank paper, convertible, well regulated, free from fluctuations in value, whose denominations should be at the very lowest ten dollars. The mixed system of the United States and the bi-metallic plan he did not endow with traits of immutability. In discussing financial problems, Webster always qualified his remarks with the phrase "for the present state of society". He recognized that a monetary system must be molded according to the economic background of a society and the stage of civilization in which it was existing.

In support of a mixed currency system, Webster offered some very potent arguments. Doubtless, he entertained these reasons during his entire life but it was not until 1834 that he

[1] Speech on the Specie Circular, December 21, 1836, *Works of Webster*, vol. iv, p. 280.

[2] Speech delivered at the Merchants' Meeting on Wall Street, New York, September 28, 1840, *Works of Webster*, vol. ii, p. 56.

brought them together and used them with convincing earnestness to defeat any proposals to curtail the use of paper money. The occasion for this discussion arose out of the executive action in September, 1833 in removing arbitrarily the United States government deposits from the national bank to the vaults of a few selected state banks. The immediate consequence was contraction of loans, commercial distress, and general confusion. When Congress assembled in December, memorials poured in from all parts of the nation and from all classes, farmers, mechanics, merchants, manufacturers, protesting against the so-called "experiment" substituting hand-picked banking institutions for the national bank as fiscal agents of government. Webster interpreted the "experiment" as ultimately leading to a return to an exclusive specie currency, first by displacing the national bank by the state institutions and then by dispensing with the state banks themselves.

Webster attacked the "experiment," the use of which term he thought was mere rationalization by the executive, with relentless force in his extensive comments upon the memorials. He gave special attention to the exclusive specie currency which was actually proposed by a few enthusiasts in Congress. To these individuals, he responded in the following fashion: "it is too antique and too Spartan; we may as well go back to iron at once".[1] He ridiculed the proposal and showed that "merchants would be seen in their daily walks of business with bags of gold and kegs of silver on their wheelbarrows".[2] Elsewhere, he asserted that such a plan would retard the progress of the nation. He always believed

[1] Remarks on the removal of the deposits, following the presentation by Webster of the Boston resolutions, January 20, 1834, *Writings and Speeches*, vol. vi, p. 250 *et seq.*

[2] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 452.

that a new country with growing population and increasing demand for capital required not a rigid inelastic medium of exchange but one made flexible by credit instruments capable of an expansion commensurate with increasing property and demand. Furthermore, he thought the supply of metallic currency alone inadequate to meet the needs of daily payments.[1] Again, he observed that " no enlightened writer or practical statesman " existed in any advanced nation who was willing to substitute a metallic currency for a well regulated and limited paper currency resting on adequate specie basis. Still another argument against the specie plan was the great expense necessary to maintain it and the risks involved in making remittances. Webster was mindful in making this suggestion of the loss through abrasion, of the heavy transportation costs in the United States, and of the great loss of capital due to the high rate of interest in America.

The final argument used in this connection is especially interesting because it displayed in another light Webster's views on the alleged social function of a sound paper currency. He extended his meaning here to prove that a sound paper medium created a real economic democracy in place of a moneyed aristocracy. He idealized the potentiality of bank credit to serve as one of the important agencies making realities out of the abstract principles of liberty and democracy, by enabling every one to obtain capital for self-development. On the other hand, he believed an exclusive metallic system would place all trade in the hands of the owners of specie; it would divide society into two distinct classes, a small class, the possessors of capital, and a very large class the members of which would be forced to depend for a livelihood upon mere manual labor. He called attention to the fact that the " men

[1] Further remarks on the removal of the deposits, following the presentation of a memorial from Maine, February 22, 1834, *Writings and Speeches*, vol. vi, p. 272 *et seq.*

of heavy capital" had been the most active opponents of a paper and credit system. The use of bank paper, then, he believed would be effective in preventing concentration of capital ownership, in dissolving class distinctions, and in distributing wealth on an equitable basis by "diffusing widely the general earnings of society".[1] Webster's eloquent idealization of social and welfare functions of the paper currency has probably never been surpassed.

4. DEPRECIATED CURRENCY

Webster, as a true conservative, advocated only the safest and most carefully guarded paper currency whose value would be sustained by ready convertibility and by bearing a fixed relationship to supporting specie. Immediate convertibility was one of his cardinal economic principles. "No paper can be made equal to gold and silver but such as is convertible into gold and silver on demand."[2] He believed, furthermore, that the quantity of currency should "naturally bear a proportion to the whole mass of property and the amount of business transactions" and should expand in accordance with these two indicia.[3] The ultimate basis of maintaining a stabilized currency Webster pronounced to be psychological. Nothing but faith of the whole people in the ability of banks of issue to redeem, he said, could sustain the currency, and such faith could be inspired only by strict observance by the banks of the principle of convertibility. As an unqualified redemptionist, he was justified in his denunciations of the paper of non-specie-paying banks as "rags, filthy rags". He never in a single instance departed from his

[1] *Writings and Speeches, op. cit.*, vol. vi, p. 274.

[2] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 448.

[3] Speech on the Specie Circular, December 21, 1836, *Works of Webster*, vol. iv, p. 283.

opinion that "it is an impossibility that irredeemable paper circulate in society and be kept at par".[1] This general observation was verified by experience in the United States during his own lifetime. Even the Treasury notes of 1838, interest-bearing and small in issue, were selling at a discount in terms of gold.

Webster feared and abhorred the depreciation of the currency and the destruction of credit more than any political or economic evil because it undermined what he considered to be the foundation of social organization, private property. Webster mentioned a variety of causes of depreciation among which were the following: deliberate inflation, the loss of popular confidence in bank credit, failure of banks to enforce the rule of a fixed ratio between notes and specie, the speculative fever which he always denounced in any form, and finally a cause applying particularly to the United States after 1833, the lack of national control over the currency by removal of the deposits and the expiration of the bank charter. Another cause of depreciation which Webster desired to avoid was less direct than the others in its operation, namely, too intimate a connection between a bank and the government which would obligate the former to make heavy loans to the state. Webster ascribed much of the inflation in the war period from 1812 to 1816 to heavy public borrowing by the national government.

On one occasion, he traced briefly the course of depreciation through the first week, when he observed no loss in value, to the first manifestation in the form of a "rise in specie" or premium on gold. Following this, came a rise in the prices of all commodities. Nothing was said about the comparative sensitiveness of different classes of goods to inflation. Nor did he formulate a scientific statement of the

[1] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 474.

quantity theory of money, though he was certainly aware of a relationship, roughly proportionate, between the supply of circulating media and prices. One of his favorite indices of the proper supply of paper money was the course of trade and the state of the exchanges. He even referred to this test as "the infallible index of the exchange". If the premium on exchange were high and gold were leaving the country, he believed the paper circulation should be diminished in proportion to the specie exports. Although he admitted this would depress prices somewhat, he thought it best to apply this remedy rather than "to oppose the natural state of things".[1] A rise in the exchanges he considered a warning signal to banks to move cautiously, fearing that they would succumb to the temptation of overissue in order to fill up the space left by specie exports and to sustain prices. Webster admonished the banks that enlargement of the currency of this sort was the first step toward crisis, distress, and inflated prices. He was of the opinion that banks generally tended to issue more paper whenever specie left the country, precisely the reverse of what he thought they ought to do. He was afraid that the loss of specie and the ensuing paper expansion would disturb the direct relationship between paper and metal which he insisted must be preserved. He even defined overissue as the actions of banks in going beyond this relationship.[2]

In all his discussions of finance, Webster, the empiricist, illustrated abundantly from the past to show that "the judgment of history is against irredeemable paper". For example, the depreciation of the Bank of England notes in 1697, the restriction period in England from 1797 to 1821, the "experiment of the assignats" were carefully and clearly

[1] Speech made at Trenton, New Jersey, during the presidential campaign of 1844, delivered in May, *Writings and Speeches*, vol. xiii, p. 225.

[2] *Ibid.*, pp. 227-231.

explained, revealing his wide knowledge of economic history and principles. He dealt at some length with the depreciation of the Bank of England note after 1797 along lines similar to those Ricardo had followed in his "Essay on the High Price of Bullion" in 1809. Much to his regret, he found plenty of illustrations of depreciation at home, which he explained in terms of the causes enumerated above.

5. CONSEQUENCES OF DEPRECIATION

Webster did not discuss the consequences of depreciated or of irredeemable paper curency under one title, but distributed his views on this topic among different speeches. One of the most important effects of depreciation, according to him, was the influence, exerted in various ways, upon the finances of government. In the first place, he said that as long as a government would accept at par, in payment for taxes and dues, depreciated bank notes, and pay them out again at a discount, a loss in revenue equal to the depreciation would ensue. In the second place, another admirable point concerning the close relationship between depreciated currency and public finance was made in a speech delivered in 1816 imploring the House to restore the legal currency and prevent the government from receiving depreciated state bank notes for public dues.[1] Webster was perturbed not only because people were paying taxes in money whose value was below par, but also because they paid their obligations in currencies of different values. He was arguing purely on grounds of justice to taxpayers in different localities. In a sense, his appeal for justice was sectional since the paper of New England banks was usually at or very close to par, thus placing a heavier burden upon New England taxpayers.

[1] Speech made on behalf of resolutions to restore the legal currency and prevent the government from receiving depreciated state bank notes for public dues, April 26, 1816, *Works of Webster*, vol. iii, pp. 48-59.

Such a system he described as flagrantly unconstitutional, calling attention to the legal injunction that all taxes must be uniform and to the principle that Congress must not display partiality. He feared the annihilation of Boston as a seaport because the Boston importers would pay duties, nominally equal to but actually higher than those paid by southern merchants. Furthermore, he believed that the depreciated paper would derange the finances, embarrass the government, and "choke up the channels of circulation by its bulk".[1] This splendid discussion exhibited Webster's great ability to apply an economic principle to practical affairs. His plea for the restoration of stability in the public finances was successful. The resolution requiring the payment of government dues in either coin, Treasury notes, United States Bank notes, or notes of specie-paying banks was passed, largely because of Webster's efforts, an achievement all the more notable because Calhoun had just failed to carry through the House a similar proposal.[2]

At another time, Webster took up the question of depreciated currency and the public finances in a somewhat different way. The occasion was interesting not only for the suggestions made but also because it revealed a striking difference of opinion between Webster and Calhoun over a great economic issue. Late in 1837, the latter declared himself in opposition to a bank-note currency based on promises to pay because it had not demonstrated its immunity from fluctuation in value. At the same time, he proposed that the United States adopt a "safe" paper currency founded exclusively on the credit of the government. Calhoun was content to leave to "experience" the determination of the quantity which ought to be issued. Webster responded that this plan would be accompanied by depreciation and, what was nearly

[1] *Works of Webster, op. cit.*, vol. iii, p. 52.

[2] Ogg, *Daniel Webster*, Philadelphia, 1914, p. 107.

as bad, a union of the political and money power which he feared would make the commerce of the United States an incident of treasury operations. Nor was this all. Webster pointed out that such a regime would release the government from the necessity of taxation and from regarding the annual income of the nation, thus destroying economy in government and encouraging prodigality in public expenditures. To Webster, there was only one worse evil than the use of irredeemable paper issued by banks and that was a government system of the same character.[1]

The other consequences of depreciation, discussed by Webster, were concerned with private enterprise. He often described the confusion in industry, commerce, and the exchanges which always followed a fall in value of the currency. In one of the speeches on the currency, he clearly explained the indispensability of low rates of domestic exchange to individuals who make frequent remittances to other parts of the country. The prosperity of the manufacturer, the planter, the merchant, and the consumer, he said, was dependent upon low costs of remittance. Territorial specialization in the United States, approved by him, had created this interdependence while the system of transferring funds by credit, in currency or bills of exchange, had made it very intricate and sensitive. Therefore, Webster argued, derangement of the credit mechanism, of currency and exchange, through depreciation, would be ruinous to private enterprise and prosperity. Webster showed by the emphasis he placed on this question that he considered it one of the most serious consequences of depreciation. Another, no less serious, was the alleged injurious effect upon the working classes. It has been previously stated that Webster believed depreciated paper not only made the capitalist and the speculator

[1] Second speech on Sub-Treasury, *Works of Webster*, vol. iv, p. 471 *et seq.*

richer at the expense of the poorer classes but also threatened the security of private property itself.[1]

The subject of crises, as Webster understood it, can be treated most relevantly in this discussion of the consequences of depreciation. He was somewhat baffled in attempting to create a definition of crises, or of "overtrading", as he called these phenomena. On one occasion he said no one knew precisely the characteristics of a period of overtrading. Nor did he formulate a general hypothesis which sought to explain comprehensively the reason for the occurrence of every crisis. Each one, he implied, possessed its own particular causes. However, he did observe a direct relationship, in general, between the occurrence of crises and the over issue of paper money; that is, the principal cause of "overtrading," in his opinion, was financial. Inflation of the price level, unwarranted expansion of business, speculation, and crises were the chief characteristics which he thought a "period of overtrading" possessed and all these features were held to be inevitable accompaniments of excessive expansion of the currency. He did not mean to infer, of course, that every inflation of the currency would be followed by overtrading and a crisis.

The regularity and inevitability of crises Webster seemed to be aware of when he made a rather indefinite distinction between ordinary trade reactions due to the "ebbing and flowing of commercial affairs" and extraordinary periods of reaction following some unusual or abnormal set of circumstances.[2] As illustration of the latter, he often spoke of the economic distress of the thirties in the United States, as typifying the class of crises and distress which could be con-

[1] Speech on the Specie Circular, *Works of Webster*, vol. iv, pp. 283-288.

[2] Remarks on the removal of the deposits following the presentation of the Boston resolutions, January 20, 1834, *Writings and Speeches*, vol. vi, p. 240 *et seq.*

trolled or even prevented. The financial blunders of the second Jackson administration and the war between the government and the United States Bank were the obvious preventable causes of this period of distress, according to Webster. The first class of crises, mentioned above, he held was to be expected and made the best of as phenomena beyond the control of man. The fundamental and underlying cause of any crisis, ordinary or extraordinary, he believed to be psychological—the loss of public confidence. "If public confidence is shaken, all is difficulty and distress." [1] Shocks to public confidence he intimated could be administered in various ways—by normal trade reactions, by inflation of the currency, by an abrupt change in fiscal policy such as the extermination of the national bank, or by contraction of the currency.

It may be of interest to show what thoughts Webster entertained about the contraction of the currency, as one cause of economic stringency and distress. A passage from one of his speeches dealing with this topic is notable for its conciseness. A suddenly diminished circulation, he said, "arrests business, puts an end to it, overwhelms all debtors by depression and a downfall of prices. With reduction in circulation, even though gradually, many mischiefs are produced, the necessity of foreign loans is augmented; we contract business enterprise and slacken the activity of capital." [2] He was unaware of the fallacy, as explained elsewhere, contained in his statement that a contracted circulation would necessarily mean a high rate of interest, which would embarrass American commerce in competing with England where the supply of currency was abundant and the interest rate low.

[1] *Writings and Speeches, op. cit.*, vol. vi, p. 255.

[2] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 447.

Although it may appear from this discussion that Webster was mindful only of financial and monetary causes of crises, he recognized that industrial phenomena may occasion periods of distress. In a few instances, he referred to overproduction and underconsumption. "There can be such a thing as overproduction or what is commonly called a glut in the market." At the same time, he maintained that "there is a limit to consumption".[1] In the discussion over the Walker tariff of 1846, he expressed his fear that the increased importations which its passage would permit might precipitate an industrial crisis because consumption could not be augmented indefinitely.

In one of his speeches on the bank, Webster examined the financial measures available for the prevention of "overtrading". One of the proposed methods related to the confinement of discounts by banks to "strictly business paper" by which he meant "notes representing real transactions and actual purchase and sale of merchandise".[2] He did not repose great confidence in this method because of the danger of extending such transactions too far and of going beyond the true wants of the community. He ascribed such a possibility to the machinations of the speculators and feared it would stimulate over-borrowing only to encourage the very thing it was designed to prevent. Webster's criticism of this preventative can hardly be called a sound one. Bank credit secured by goods, he failed to see would not constitute inflation. His conception of currency inflation was not scientifically accurate because of his dogmatic assertion that the value of currency was always sustained by metal and not, at least directly, by commodities. He always held to

[1] Speech on the Walker Tariff, July 25 and 27, 1846, *Works of Webster*, vol. v, pp. 164-166.

[2] Speech on the bill for renewing the charter of the Bank of the United States, May 25, 1832, *Works of Webster*, vol. iii, pp. 398-399.

the idea that gold and silver alone, and nothing else, could be the basis of bank credit. It appears, furthermore, that he overemphasized the significance of speculative operations in this particular respect. A second "security against overtrading" considered by him was the collection of specie in the banks. He opposed this also on the grounds that it would excite specie exportation and endanger the paper currency. He neglected to explain the method by which concentration of specie would actuate its exportation by the bankers. A third proposal did meet his enthusiastic approval partly because it was the direct opposite of the second. He favored the withdrawal from circulation of bank notes of small denominations and in their place he would diffuse widely a great quantity of small gold and silver coins. He thought the mass of state bank notes bearing a low denomination, of which there were about $10,000,000 worth in 1832, was mainly responsible for the inflation and depreciation of local bank paper. Twenty, or at the very least, ten dollars, in his opinion ought to be the minimum. This policy, which he believed could be achieved by agreement between state and the national banks, would, he was confident, discourage specie exports and correct the evils of "overtrading".[1]

It is regrettable that Webster did not develop a more satisfactory general analysis of industrial and financial crises. For two reasons, a more scientific discussion ought to have been forthcoming; first, because he lived through at least two very severe crises in the history of this country and he must have been well informed, as to their causes, by his own acute observation; and second, because his particular genius for handling the problems of finance, credit, and banking should have expressed itself in a meticulous study of this question which, to him, was exceedingly important.

[1] *Works of Webster, op. cit.*, vol. iii, pp. 399-401.

6. CONTROL OF THE CURRENCY

A few words ought to be devoted to Webster's opinions concerning the control of the currency. Webster advocated some measure of social control over the currency system because of the great social responsibility he assigned to the banks. He believed that a currency consisting partly of bank paper "has a tendency to excess and that it requires the constant care and oversight of the government".[1] The most effective method of safeguarding the currency was for the government to compel each bank to maintain a fixed proportion between notes and specie. Furthermore, a national currency under national control, he argued, would check the local issues and on such grounds as these he always upheld the United States Bank and its right to issue notes. In general, he thought the efficacy of a credit system depended upon the wisdom of the laws and the character of their administration, though he warned repeatedly against too close a connection between government and bank. He brought into close causal relationship good government, stability of the currency, and general prosperity and, conversely, he would hold bad government responsible for fluctuating currency and adversity. "Credit cannot exist under arbitrary and rapacious governments and commerce cannot exist without credit."[2] To prove this generalization, empirical illustrations were drawn from Tripoli, Tunis, Algiers, Spain, and Portugal where bad government had impaired the use of credit and where "hard money" alone had been generally acceptable. On the other hand much of England's prosperity was attributed to the excellent political system making possi-

[1] Speech on the Specie Circular, December 21, 1836, *Works of Webster*, vol. iv, p. 281.

[2] Speech delivered in the Senate on March 18, 1834 on moving for leave to introduce a bill to continue the Bank of the United States for six years, *Works of Webster*, vol. iv, p. 90.

ble such an institution as the Bank of England which on one occasion he said was founded by "William the Deliverer and not William the Conqueror".[1] As further proof of his contention that statesmen must govern wisely to preserve the value of the currency, he pointed to the alleged blunders of the Jackson fiscal policy and especially the veto of the bill to recharter the United States Bank in 1832 as the factors mainly responsible for the currency disorders of the thirties.

The question of the right of Congress to control the currency was one which often came to his attention and always he adhered to his position that the constitutional power of Congress over the currency was indisputable. Since the constitution had been created partly to establish a uniform currency, the regulation of this currency he considered to be "one of Congress' solemn duties".[2] He took the position that since Congress had power over the coinage, the foundation work of the paper money, it also controlled the paper superstructure. Because paper tended to displace coin, Congress, he said, must have power to protect not only the coinage and the circulation of specie but also the instrumentalities which may supersede it. The coinage must be a sound and safe medium of exchange and, by implication, Congress must control anything which threatened it. He found further support for his view from the fact that Congress had the supreme power to regulate commerce, deducing from this the right of Congress to control all instrumentalities of commerce among the most important of which he placed money and currency. He realized that bank paper was not money in the technical sense but had acquired the functions of money and therefore became an instrument of commerce subject to the direct or indirect control of Congress.

[1] *Works of Webster, op. cit.*, vol. iv, p. 91.

[2] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 459.

CHAPTER II

Banking

Webster's expressed views on banking were stimulated for the most part by the struggle over the United States Bank. His first speech on the bank question was delivered in the House on January 2, 1815. From that time onward, he was one of the leading participants in the controversy, always defending the principles upon which the national bank had been created and maintained. His actions on behalf of the bank's cause reached a great climax between the years 1832 and 1834 when he spoke on questions involving banking and finance more than sixty times. Among these utterances, some splendid achievements of Webster are to be found. Certainly, they offer abundant evidence of Webster's skill as a practical economist. One commentator, Mr. Lodge, thinks that "with the exception of Hamilton, no statesman in our history was capable of such a performance on such a subject." [1] Describing this performance of the thirties as "one of the most remarkable exhibitions of intellectual power ever made by any public man in our history," he further pays tribute to Webster's "extraordinary grasp of complicated financial problems." [2] In discussing within these pages Webster's impressions concerning banking, however, it would be an unpardonable omission to overlook the opinions expressed before the great contest with President Jackson. The speech of 1815, one of the most notable of the

[1] Lodge, *Daniel Webster* (New York, 1899), p. 228.

[2] *Ibid.*, p. 228.

early discourses, may be taken as an embodiment of the type of views expressed before the Jackson era. They are not essentially different, however, from his later opinions since he consistently and at all times defended the fundamental principles of sound conservative banking upon which, according to him, the first and second United States Banks rested.

I. EARLIER VIEWS

In general, his remarks of 1815 and 1816, showed him to be a disciple of the Hamiltonian school advocating a bank of reasonably large capital with ability to pay specie on demand and possessing perfect liberty, with no element of compulsion whatsoever, to make loans to the government. The occasion for the address of 1815 must be briefly explained in order to comprehend the value of Webster's contributions. The economic exigencies of the time requiring it, a bill to recreate the United States Bank was introduced late in 1814. At that time Congress was divided into three groups respecting the bank question: first, a faction which opposed a bank in any form; second, a party which would support a bank providing it had a large capital and could be forced to make loans to the government and would be relieved of the obligation of paying specie; and finally, a group to which Webster allied himself and which insisted upon sound and conservative banking principles of the Hamiltonian tradition.[1] The bill of 1814 provided for a bank with a capital of fifty million dollars, only four million of which was to be specie, the rest being government stocks, then depreciated. The government was to be able to borrow thirty million dollars and was to have power to determine the regulations regarding specie payments. Specie was not circulating widely at this time. Obviously, such a bank could not operate on a specie

[1] Memorandum by Daniel Webster, reprinted in Curtis, *Life of Daniel Webster* (New York, 1893), pp. 140, *et seq.*

basis because its slender supply of specie could be drained in a short time. In reality, this was a plan to establish an irredeemable paper circulation on depreciated government stocks and in large measure satisfied the demands of the second group in Congress, mentioned above.

Webster's speech was designed to expose the bill's undesirable features which, to him, were fraught with danger to the whole community. He opposed the stock plan of the proposed bank both because of the "unprecedented" size of the capital, considering the needs of the country, and because the bill made the capitalization consist mostly of public stock. This latter feature was alleged by him to lead to violent depreciation of the bank's currency, if it were ever put into operation, a circumstance which would, by affecting the interests of every bank and individual in the country, make the state banking problem of redemption a great deal worse than it was. Webster saw that such a bank could never pay specie nor could it enforce the payment of the stocks, two traits which, to him, meant an irredeemable paper currency. The credit of the bank would rest, not on private property, as he said it should, but on public stock, a situation which provoked him to remark: "its funds may as well be at the bottom of the ocean as in government stocks." [1] The credit of the bank, he asserted, would be the credit of the government, and a bank founded upon the public debt would have no better reputation than the debt itself. It has already been indicated that Webster was antipathetic toward the public debt principle; it was natural, then, for him to oppose any institution which was based upon it. Again, as a matter of principle, he did not favor too close a connection between government and bank. Experience abroad, he said, in the banks of Petersburg, Vienna, and Copenhagen where such

[1] Speech on the United States Bank Bill, January 2, 1815, *Works of Webster*, vol. iii, p. 44.

connection was maintained, proved its failure. "Excessive paper issues and too close connection to government are the circumstances most certain to destroy the credit of bank paper."[1] The intimate affiliation with the government, according to Webster, would have made the bank far more a financial, that is a purely fiscal agency for government, than a commercial institution existing for the benefit of the commercial community. He thought that the proposed bank would "look more like the paper money department of the government" and would possess no obligations to fulfill its contracts.[2]

Another target for Webster's criticism of the plan for the bank was the government's prerogative with respect to the regulation, and even suspension, of specie payment. He emphasized the fact that no other principle has been discovered by mankind to keep circulating paper currency equal in value to metal than immediate convertibility. Along with extensive critical comment, of the character discussed here, Webster made a number of positive assertions which may be considered as valuable contributions to the subject of banking and finance. The *raison d'être* of a great national bank, he thought, was to furnish the entire community with a dependable and stable circulating medium and to serve incidentally as a fiscal agent of the government, and in a broader sense, of society. With respect to the services rendered to the government, he believed it proper that the bank facilitate the collection and disbursement of the public funds and that it loan to government in anticipation of taxes and that it act as its agent in diverse ways. Yet he was careful to point out that "banks are not revenue" and that "a bank is a servant of the state, not a source of national income." "The streams of revenue flow from deeper fountains." He considered that "bank

[1] *Works of Webster, op. cit.*, vol. iii, pp. 44-45.

[2] *Ibid.*, p. 38.

credit and notes are results and not causes of commerce; they are the props of national wealth, not its foundations." [1] Banks, meaning almost entirely commercial banks of issue—for rarely did Webster discuss banks as savings institutions—he esteemed to be indispensable elements in the economic system, provided they operated strictly under conservative economic principles. He regarded them as serving primarily the "enterprising classes." In addition to the services rendered to private enterprise and prosperity and to the government as fiscal agent, Webster pointed out that a strong, specie paying, national bank would assist in the restoration and maintenance of the public credit.

The immediate consequence of Webster's admirable speech of 1815 was the failure of the bill to pass the House. An amended bill providing for a capital reduced to thirty million, an abolition of the power of government to suspend specie payments and to force loans from the bank was substituted. The measure was vetoed by President Madison, whose action was supported by Secretary Dallas, principally because of the restrictions placed upon the loans to government. While Webster and Madison disagreed on some of the economic features of the bill, neither entertained constitutional scruples against the legality of a national bank. The bank question went over into the next Congress which was the fourteenth, during which a bill was passed on April 10, 1816, authorizing the creation of a United States Bank. Although most of the features obnoxious to Webster were absent, he voted against the bill because of what he considered to be too close a connection between government and bank. As Webster had predicted in 1815, speculation in the stock of the new bank became a widely spread practice, and for the first few years the institution had a stormy career.

[1] *Works of Webster, op. cit.*, vol. iii, p. 37.

2. LATER VIEWS

The bank question, settled for the time being in 1816, was brought to the front once more by the application for the renewal of the charter in 1832. Webster, who was then in the Senate, defended the application in a speech of great ability, which in the opinion of one biographer, displayed "a knowledge of the principles and intricacies of public finance unequalled in our history since Hamilton." [1] Following this great discourse of May 25, came others on the general subject of finance and banking in rapid succession. On May 28, he spoke against a proposal to allow states to tax the bank.[2] On July 11, he replied to Jackson's veto of the bank bill. About fourteen months later, began that long series of sixty odd speeches of varying length which occurred between the presentation of the Boston memorials protesting against the removal of the desposits in September, 1833, and the end of the session in 1834. The essence of his opinions on banking which were expressed in this brilliant array of speeches from 1832 to 1834 is given in the paragraphs immediately following.

Webster was never guilty of deviating in the slightest degree from his devotion to the stern tenets of conservative banking practices. Very rarely a dogmatist, he was immovable in his conviction that such conservative principles were unquestionably right and possessed universal applicability. He spoke of them as "those principles of currency and banking which, since they spring from the nature of money and commerce, must be essentially the same at all times and in all commercial communities." [3] It is not sur-

[1] Lodge, *Daniel Webster* (New York, 1899), p. 208.

[2] Remarks relative to an amendment to a bill to give the states right to tax the branches of the national bank, May 28, 1832, *Works of Webster*, vol. iii, pp. 407-415.

[3] Speech on the bill for renewing the charter of the Bank of the United States, May 25, 1832, *Works of Webster*, vol. iii, p. 392 *et seq.*

prising, then, to find no inconsistencies and no striking differences between Webster's opinions of the second and those of the fourth decade of the nineteenth century with respect to banking problems. His later remarks emphasized, and, what was still more significant, developed, amplified, and brought into riper maturity the earlier views. His particular purpose in making such extended argumentations was to demonstrate the applicability and the indispensability of his "universal principles" of sound banking to the economic progress of the United States.

With respect to details of structure and administration, of course, Webster departed somewhat from his earlier opinions. Although he opposed the number and size of shares and the close connection between the government and bank, as provided in the recharter plan of 1832, he no longer objected to a higher capital stock for the bank, although he still insisted upon a conservative capitalization. "The circumstances of the country", by which he meant the growth of population and the extension of commerce, demanded an enlarged capacity of the bank. He thought, furthermore, that the enlarged capitalization would strengthen the national bank as against the state banks. This suggestion brought forth the matter of the relationship between the United States Bank and the local banks.

It cannot be said that Webster was an opponent of the state banks *per se*. He recognized their legitimacy and usefulness but objected to the unwillingness of some to put into practice the canons of conservatism and caution. He did not censure them entirely for their misguided actions but laid a considerable measure of the blame at the door of the Federal government itself. He said that state banks were invited to incorporate as soon as the national government refused to extend the charter of the first bank in 1811 on account of its alleged unconstitutionality. His sympathy

toward them was shown in his statement that "they deserve some regard on account of themselves and of the whole community which is affected by the quantity of money in circulation." [1] In another speech, he blamed the national government for furnishing one cause, at least, for the excessive issue by state banks when it induced heavy loans from them to meet the exigencies of the War of 1812.[2] He spoke of the "great quantities of bank paper in no degree corresponding with the mercantile business of the country." Webster did not at all desire the extermination of the local banks of issue. He hoped to establish a plan of cooperation between state banks and the national bank regarding the regulation of the quantity of paper issued. One suggestion bearing upon this plan was particularly interesting. He believed that the currency of the United States Bank, possessing nation-wide credit, could be used not only for hand-to-hand circulation, but also would be exclusively used for remittances. A natural demand, in his opinion, for the national currency for this purpose would tend to restrict the state bank notes to local circulation, since the notes of each locality would not stand the test of remittance far from the bank of issue to which they would always tend to return. Again, if state issues should become excessive and threaten to depreciate, he believed the habitual users of local bank credits would then turn to the national currency, thus establishing an automatic check to the former. Such a "salutary corrective," he was assured, would automatically determine the quantity of the local circulation. In this way, by means of a national currency and friendly cooperation with state banks,

[1] Speech on the United States Bank Bill, January 2, 1815, *Works of Webster*, vol. iii, p. 47.

[2] Speech made on behalf of resolutions to restore the legal currency and prevent the government from receiving depreciated state bank notes for public dues, April 26, 1816, *Works of Webster*, vol. iii, p. 49 *et seq.*

he hoped that coercive measures to insure a safe circulation could be avoided.[1]

Webster always chose to treat the bank question as a public, and not as a restricted or a private, issue. The United States Bank, he thought, concerned every individual in the country and therefore was regarded by him as a social institution the principle purpose of which was to "promote great public interests for great public objects" and "to connect public safety and convenience with private interests."[2] "Experience has shown that the bank is necessary during both war and peace, even more necessary in peace" he said to those who thought the bank should serve only as an emergency institution.[3]

Upon almost all occasions, he discussed the functions of the bank from the point of view of the public and its welfare. Only very briefly did he consider the technical banking functions of discounting, regulating the issue, maintaining reserves, and preserving convertibility from the viewpoint of the banker.[4] Even then his purpose was to show that the United States Bank ought to execute these operations in such a way as to serve as a model for state institutions. He was not at all explicit about the ideal ratio which ought to prevail between specie reserves and outstanding notes but he intimated that the former should be at the very least one-

[1] Remarks on the removal of the deposits relative to the approval by the New York legislature of the removal and to the opposition to the United States Bank, January 30, 1834, *Writings and Speeches*, vol. vi, p. 263.

[2] Speech on the President's veto of the Bank Bill, July 11, 1832, *Works of Webster*, vol. iii, p. 424.

[3] Remarks on the removal of the deposits following the presentation of the Boston resolutions, January 30, 1834, *Writings and Speeches*, vol. vi, p. 257.

[4] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, pp. 433-435.

third of the latter.[1] Since these technical matters are of comparatively small significance, they may conveniently be dismissed.

In discussing the supposed public functions of the United States Bank, he placed above all others the issue and regulation of a stable convertible currency, partly to hold in check the local issues since he believed that "without a national bank the state banks are accountable to no one," but especially to insure the preservation of private property and to facilitate legitimate business enterprise. He had unlimited faith in the ability of the United States Bank to accomplish these results. "With the bank gone, the safe currency goes also."[2] He also said: "Nowhere in the world is there another institution whose notes spread so far and wide with perfect credit in all places."[3] The currency question he looked upon not merely as a financial problem but as a social issue directly affecting standards of value, property, prices, labor incomes, and the exchange rates. The abuses of bank credit he admitted fell more heavily upon the poorer classes, but merely because a good thing could be abused was not a satisfactory reason to him for giving it up entirely. The second public function performed by the bank of the United States, emphasized very strongly by the later speeches on this subject, has been mentioned briefly in these pages. Webster saw that the bank could render invaluable services to the Treasury in four ways: as assistant in the collection of revenue, as custodian and as a means of transmission of the public funds, and as an agency through which disbursements could be

[1] Speech on the bill for renewing the charter of the Bank of the United States, May 25, 1832, *Works of Webster*, vol. iv, p. 398 *et seq.*

[2] Remarks on the removal of the deposits, following the presentation of the Boston resolutions, January 30, 1834, *Writings and Speeches*, vol. vi, p. 257.

[3] *Ibid.*, p. 257.

made. He pointed out many times that the state banks had failed as fiscal agents of government.[1]

The third general function of the bank, relating to the maintenance of low and stable exchange rates, domestic and foreign, Webster regarded as exceedingly important. While he did not favor any monopoly, even by the bank itself, in the exchange market, he admitted that dominant control by the United States Bank in this particular enterprise would be socially desirable. Such domination, effectuated by the size of the bank's capital and by its numerous branches, he held would bring the general domestic rates nearer to equality and in this way the public would be benefited. By public, of course, he meant the commercial community. To prove his assumption that stable domestic rates were publicly desirable, he indicated the comparative steadiness of business which he said prevailed during the bank's career when the rates had been evenly maintained. His evidence was not very authentic but his conclusions were in large measure justifiable, though there were other reasons for them than the career of the national bank. The bank's readiness with its "competent funds" to buy and sell exchange, he argued, cheapened the operating costs of the western and the southern exporters. This statement represented a direct sectional appeal in the enemy's country, since the south, on the whole, was firm in its opposition to the bank.

Finally, Webster contended that the bank yielded priceless services to the business community by providing capital for all forms of productive enterprise. In a number of addresses, he stressed the indispensability of the national bank to the western farmers, claiming that the west needed it more than any other part of the country. In 1832 he warned the westerners that in the absence of the United States Bank, capital would have to come from the state banks whose de-

[1] *Writings and Speeches, op. cit.*, vol. vi, p. 254 *et seq.*

preciated notes he predicted would be followed by a long train of ills.[1] He further pointed out that if the bank were dissolved and its currency withdrawn, contraction of prices and profits would be felt "in the first crop." A few weeks later, after Jackson's veto of the bill to recharter the national bank, he said: "As this veto travels west, it will depreciate the value of every man's property from the Atlantic to the capital of Missouri."[2] While Webster was thus endeavoring to win the support of the west to his cause, he did not fail to demonstrate the necessity of the bank's services to the manufacturing and commercial interests. A speech made in 1834 relative to the recharter of the bank may illustrate this. In that address, he attributed the languishing state of foreign trade and the falling away of the customs by almost one-third to Jackson's veto of the bank bill, to the removal of the deposits, and to the preparations made by the bank to discontinue its operations. What was particularly obnoxious to him was a threatened treasury deficit and a postponement in the payment of the public debt. He did not desire to tax the free list for the purpose of avoiding the deficit. Following these allegations in respect to foreign trade, came his dire remarks that the effects upon internal trade were "a thousand times worse," and to prove this he mentioned a number of textile mills in New Jersey and Massachusetts which had been forced to shut down. He saw "not only diminution but stagnation."[3]

A few remarks to show how Webster defended the bank against specific charges may be interesting. Jackson's

[1] Speech on the bill for renewing the charter of the Bank of the United States, May 25, 1832, *Works of Webster*, vol. iii, pp. 404-407.

[2] Speech on the President's veto of the Bank Bill, July 11, 1832, *Works of Webster*, vol. iii, p. 419.

[3] Speech of March 18, 1834 on moving for leave to introduce a bill to continue the Bank of the United States for six years, *Works of Webster*, vol. iv, p. 86.

assertion that the national bank had been destroyed to protect the poor against a rich moneyed aristocracy was met by caustic criticism. Even the "middle classes," Webster said, were "in the jaws of usury and at the feet of capitalists" because the government measures had "transferred millions of hard earned property in the form of extra interest" from the poorer classes to the rich. "And this is called putting down the moneyed aristocracy." He even ventured to prophesy that in the absence of the bank "we shall behold a country strange to us, a class of idle rich and a class of idle poor, the former a handful, the latter a host." [1] In other speeches, Webster met the challenges of Jackson that the bank had been a monopoly and that the act creating the bank had favored the stockholders by bestowing upon them the earnings of the people. To the first charge, Webster answered that the powers of the bank were such as were conferred on other banks and that it was not a creature of privilege; to the second, he said the stockholders had paid well for their securities and they had not always been above par either, and he further claimed that the benefit to the stockholders had been incidental to the bank's main purpose which was to serve the public welfare. Another interesting point arose in the Webster-Jackson debate over the bank. In his veto message, the President had said that bank stock would be made more valuable to foreigners than to residents because foreign owned bank stock would not be taxed by the American states and therefore the stock would be purchased by foreigners, making American people pay annual tribute to foreign creditors. Jackson feared the result would be a heavy exportation of specie. Webster answered that the stock would not be worth more to foreigners unless capital were more abundant abroad and seeking a more profitable investment. Again, Webster showed that the foreigner was not exempt from tax-

[1] *Works of Webster, op. cit.*, vol. iv, p. 93.

ation as Jackson had thought, inasmuch as foreign governments taxed his income from this as well as other sources. Besides, he saw no objection to the introduction of foreign capital and paid a high tribute to the part foreign capital had played in the development of American banking, internal improvements, and industry. One final point in this connection should be mentioned. Calhoun had opposed the bank partly because he feared the domination of the New York market and the centralization of the country's banking and commercial systems. Webster defended New York's position and asserted that it would not benefit the large cities unequally since " natural causes operate to create in any country some especially favored and centralized point of business." [1]

The preceding discussion of Webster's views on banking has been undertaken from the viewpoint of a particular issue, the problem of the United States Bank, primarily because his remarks always related to this question, either directly or indirectly. He was not a monetary theorist employed in abstruse speculation but a distinguished economist-statesman engaged in defending the application of fundamental economic principles to a specific institution. Because emphasis here has been placed upon his position with respect to this question which was settled nearly a century ago, it does not follow that his contributions are of historical interest only. While he lost his fight for the bank in the thirties, his voluminous expositions of the " universal principles " of sound banking, and of other principles bearing upon money, credit, currency and public finance were then, as they remain even to the present day, notable contributions to economic science and to the progress of economic thought in the United States.

[1] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 469 *et seq.*

CHAPTER III

International Trade

I. THEORY OF TRADE

Mr. Webster's thoughts on the subject of foreign commerce involved a twofold aspect and were both critical and constructive. A vigorous and devastating attack upon the fallacies of Mercantilism was accompanied by a strong and clear defense of exchange on the basis of differential natural advantage. A masterly exposition of Webster's doctrines of international trade is found in the speech on the tariff delivered before the House in 1824, a discourse which must rank as one of his greatest achievements though less well known than others. With complete justice can Mr. Lodge hold the opinion that "this speech was one of great ability, showing a remarkable capacity for questions of political economy." [1] That part of the speech devoted to trade theory brought out three distinct points; namely, a study of the "true nature of commerce," a criticism of the balance of trade doctrine, and an analysis of the consequences of specie exportation.

Taking these questions for consideration in the order mentioned, attention is first directed toward Webster's impressions about the "nature of commerce." The true origin of commerce was imputed to diversity in the world's climate, resources and soil, giving rise to reciprocal wants among nations and reciprocal means for the gratification of one another's wants. Commerce, described simply as the exchange

[1] Lodge, *Daniel Webster* (New York, 1899), p. 164.

of equivalents, was said to operate under a principle of universal applicability which would be the same " from the rude state of primitive barter to the refined and complex condition " of his own age.[1] In speaking of the origin of commerce, Webster did not mean chronological beginnings so much as the real reasons for its existence.

With respect to the object of commerce, Webster took direct issue with Mercantilist doctrine. The sole purpose of commerce, he maintained, was to induce that exchange of commodities between individuals or nations which contributed most to the advantage and welfare of all parties to the exchange. The Mercantilist opinion of the function of commerce as an instrument to weaken others and to create a unilateral benefit was totally rejected by him. " Commerce is not a gambling among nations for a stake to be won by some and lost by others. It has not the tendency to impoverish one of the parties while it enriches the other. All parties gain; all parties make profit; all grow rich by the operation of a just and liberal commerce." [2] Such would be the condition of trade if it were allowed to follow its " natural " channels with a minimum of artificial regulation. So earnestly did Webster wish to emphasize this conclusion that he carried it almost to a *reductio ad absurdum*. Only if the world contained one climate and one grade of soil, he said, and if men had the same wants and the same means to gratify their wants would it be possible for one party to gain in trade at the expense of the other. Only in such a condition did he think there would be any foundation for the balance-of-trade doctrine.

In seeking intellectual support, Webster referred to the accord between his own opinions respecting trade and those

[1] Speech on the Tariff, April, 1824, *Works of Webster*, vol. iii, p. 120.

[2] Speech on the Tariff, April, 1824, *Works of Webster*, vol. iii, p. 120.

"advanced in the more elaborate treatises." Perhaps he meant the classical economists, whose writings were familiar to him, though no names were mentioned in this connection. The only authority whom he quoted at considerable length concerning the sophistries of Mercantilism was Huskisson. It is significant that he should prefer to quote the writings of a "practical" man rather than those of the "theoretical" economists for whose dogma, he, on more than one occasion, professed scant respect.

The second part of Webster's study of international trade was a treatment of the balance-of-trade doctrine, growing out of the first part as an elaboration of his views on the true nature of commerce. There is a trace of humor to be found in his opening allusions to the doctrine. He desired not only to speak "of it but to it, with hard names to drive the spectre back into its tomb." [1] It was the myth of the "unfavorable balance," defined by him as "that state of things in which importation exceeds exportation," which he particularly wished to dispel. He wanted to refute the lugubrious claim that a country whose imports always exceeded the exports in value was racing toward ruin and bankruptcy. In his opinion, the fallacy lay in assuming that a debt, equal to the difference between imports and exports, was always created in the nation whose imports were excessive. Actually there was no debt at all; ordinarily, he thought the value of the import to be the value of the export augmented by the labor of transportation. An excess of imports, then, might reflect gains from trade in the form of profits from navigation, especially in those countries with large merchant marines, such as England and the United States.

Furthermore, Webster believed that if the value of a cargo imported did not exceed that of the outbound cargo with which the former had been purchased, the voyage would not

[1] Speech of April, 1824, *Works of Webster*, vol. iii, p. 118.

have been profitable. In other words, a lower value of goods imported, purchased by exported articles of greater value, would reveal an economic loss and would be just the converse of the balance-of-trade doctrine which maintained that such a condition would bring profit and prosperity. It appears, then, that Webster thought the balance-of-trade doctrine to be the opposite of the truth. Webster's criticism is sound insofar as it relates to a particular merchant and at any one time and this is probably what he had in mind. However, from the viewpoint of the entire community and taking into consideration a long period of time and all items of trade, visible and invisible, it is not true, as Webster implies it is, that the value of any nation's imports can perpetually exceed its exports.

That Webster was aware of this truth is shown in another significant passage in the 1824 speech which states clearly and simply the principle known as the "balance of international payments." His observation and study of trade led him to make the generalization that "in the normal course of things. and taking a series of years together, the value of imports equals the aggregate of exports and freights."[1] By this assertion and by other passages in this great speech, Webster expressed his recognition of certain deep-seated forces and tendencies operating in international trade. His observations were threefold: first, that in the long run, a merchandise balance of trade could never run perpetually against any one nation; secondly, that international trade is fundamentally barter, an exchange of one country's utilities for those of another; and third, that over a long period of years a nation must pay for its imports with the produce of its own land, labor, and capital and that this could be best accomplished by governments leaving the "normal" economic forces to work themselves out unmolested.

[1] Speech on the Tariff, April, 1824, *Works of Webster*, vol. iii, p. 119.

Webster demonstrated his ability to distinguish economic realities from appearances by exposing the fallacy of abstaining from buying in those countries which purchase little or nothing from the United States. He did not believe that a losing trade resulted when one nation purchased from another in excess of its sales. An admirable illustration was at his disposal. The Russian trade had been decried by many owing to the fact that there had been greater buying from Russia than selling to her. Webster criticized this view as being a short-sighted one based only upon a study of the statistics of the direct trade with that country. The flourishing indirect trade had been overlooked. Volumes of American exports were reaching Russia indirectly by the circuitous process of first exchanging American cargoes in Cuba or Brazil for tropical produce and ultimately disposing of these goods in Russia to pay for the articles needed in America. Webster explained the great advantage to the United States of this three-cornered trade and described it, not as languishing, as many were thinking, but as a prosperous and a highly essential feature of American economic life.

Webster did prefer, however, to cultivate a direct trade with another nation wherever it was possible, thinking the net gain to be greater in such a case. Direct intercourse between nations he regarded as the most simple and original form of commerce. Regarding the use of money or barter in international trade, whether direct or indirect, he said: "exchange of products between nations may be convenient but, on the other hand, a cash transaction may be better. It is not true that a trade is not profitable because it is carried on by the precious metals, or, what amounts to the same thing, that it ought to be renounced because one country's manufactures are not received by another nation for its produce." [1] Webster's entire analysis of the balance-of-trade

[1] Speech on the Tariff, April, 1824, *Works of Webster*, vol. iii, pp. 123-124.

doctrine and of the problems closely affiliated with it shows him to be an exceedingly clear-thinking, far-seeing, and scientific economist regarding trade.

The third part of Mr. Webster's general treatment of trade dealt with the question of specie exportation. Actually, this part is a continuation of his criticism of the balance of trade doctrine, though from another point of view. The problem of specie exports was brought to Webster's attention by the actions of many of his contemporaries in attributing the existence of alleged economic evils in the United States to the loss of precious metal to foreign nations. A few of these "evils" were the loss of the home market for American agriculture and the sluggishness of domestic trade (in 1824), but the one stressed most emphatically was the American trade with the Far East because it was conducted from the American side largely by exportaion of gold and silver. Unlike these individuals, Webster believed that loss of metal to other countries was a legitimate part of the normal economic process. With strong language, he met the claims of his neo-mercantilist contemporaries: "There are no shallower reasoners than those political and commercial writers who would represent it to be the only true and gainful end of commerce, to accumulate the precious metals." [1] To those American farmers who thought that people could not buy their produce because of a dearth of specie, Webster responded that want of demand, not absence of money, was the cause.[2] "Men do not buy wheat because they have money but because they want wheat. Given the demand, produce sells for money at prices properly belonging to those articles." Thus did Webster aim to demolish the false conception that national prosperity depends upon the accumulation of the precious metals.

[1] *Works of Webster, op. cit.*, vol. iii, p. 125.

[2] *Ibid.*, p. 125.

The underlying truths of international trade were obvious to Webster. It was clear to him that, the balance of payments between nations could never be precisely equal at any one time, even though the trade yielded benefits to all parties. Deficiencies in these payments he saw had to be met by a commodity of universal desirability, a quality possessed almost exclusively by the precious metals. He indicated that the precious metals possessed a twofold function: to serve as any other article of utility to gratify the wants of mankind, and, by the common consent of nations, to act as a "standard by which the values of all other things are esteemed." Even the latter distinction attached to gold and silver was not sufficient justification, in his opinion, for their accumulation in excessive amounts. He warned his hearers of the "grave danger" of accumulating too much specie, the consequence of which might lead to higher prices and speculation. His prescription for the prevention of such economic phenomena was to bring the supply of specie into perfect adjustment with the demand. Unfortunately, he failed to explain the method by which this principle could be put into application. He even neglected to clear away the ambiguity surrounding his expression "demand for specie." Doubtless, he meant the double demand for gold and silver which, he implied, would never be a constant magnitude. He was explicit, however, about one point, namely, that if a country became overstocked with specie,—and he did not think this to be a rare circumstance in any national economy,—its exportation was as proper as that of any other superabundant commodity.[1]

Though failing to elaborate his analysis of demand for specie, he did offer two explicit indicia of an abundant supply of metal within any country. First, if the currency were largely metallic, rising prices of commodities would reveal

[1] Speech on the Tariff, 1824, *Works of Webster*, vol. iii, p. 125.

the existence of a plentiful supply. Webster was much too vague in handling this particular point. He omitted even to mention the necessity of creating a suitable mathematical index for the measurement of prices. His second criterion of an abundant supply of metal was the interest rate, which he thought would be low under such a circumstance, accompanied by ease of obtaining money for loans and by a disposition to invest in "permanent stocks." Webster displayed either confusion or carelessness in his thought concerning the relationship between the quantity of standard money and the interest rate on loanable funds. His assumption that the value of money and the interest rate were precisely identical and determined by the same set of forces was unwarranted. He evidently did not see that the interest rate is not a function of the supply of money but of the availability of loanable capital, an entirely different thing. His thinking is clear, however, with respect to the causal relationship between the quantity of specie and the prices of commodities. On the whole, it seems that Webster's analysis of the indicators which point to the possible approach of excessive specie accumulation was not entirely satisfactory.

In conclusion, it may be said that the principal object of Webster's discussion of specie movements in connection with international trade was to annihilate the notion that a high state of economic prosperity is directly dependent upon accumulation of the precious metals. He desired his hearers to observe that, on the contrary, accumulation often meant an actual want of employment for capital. Furthermore, he wanted to show that it would be unwise to have on hand excessive stocks of gold as money in the vaults of banks. For example, he said: "We have no occasion for the precious metals as money except for purposes of circulation or of sustaining a safe paper circulation." [1] He did not specify

[1] Speech on the Tariff, April, 1824, "Works of Webster," vol. iii, p. 126.

any quantitative ratio which should prevail between this minimum gold reserve and the "safe" currency which it was supposed to sustain. Any surplus above this minimum, which, it is safe to assume, would have been placed at a fairly high figure, he considered ought to be exported in search of profitable investment abroad.

The perfect fluidity of gold movements between nations could only be achieved under a system of unrestrained freedom of enterprise. On behalf of such a regime, Webster earnestly plead on many occasions. There was no place in his ideal economic world for embargoes upon either goods or gold. He had supreme confidence in the operation of the force of international demand, with respect to the distribution of the world's specie supply among the nations according to their monetary requirements. Webster's treatment of precious metal movements, in last analysis, did leave much to be desired, chiefly because it was incomplete. The omission of such questions as the quantitative relationship between specie flow and prices, the effects of specie movements upon the currents of commodity trade and the rates of exchange, the disturbance of normal specie flow by protection, and many others, is indeed regrettable.

Finally, it seems clear that Webster's thoughts on international trade and associated problems do not display a startlingly original character. There is no doubt that he was deeply influenced by the writings of his English contemporaries and predecessors on these questions. However, he based his exposition upon his own remarkably keen sense of observation and upon a recognition of the fundamental forces at work beneath the mass of detail and fact.

2. FOREIGN EXCHANGE

In various speeches Mr. Webster alluded to foreign exchange. One of his later discourses contained an admirable

summary of the uses to which the bill of exchange is put in the facilitation of foreign trade operations. However, there was no prolonged analysis of the principles of foreign exchange in any of his speeches. Only one included more than passing reference to exchange problems—the celebrated tariff speech delivered in 1824 in answer to Clay. Webster's remarks of that year, pertaining almost entirely to the question of the rates of exchange, were prompted by a passage in Clay's speech on the "American system" which pointed to the high quotations in sterling exchange as a certain indication that America was heading toward economic depression. Clay thought that a high rate of exchange on foreign currencies meant heavy indebtedness for the United States and an unprofitable state of trade. Webster called into question Clay's lugubrious interpretations of the high price of sterling which prevailed at this time and showed there was no cause for alarm at all. His reasoning was based upon his view that a clear distinction must be drawn between a nominal and a real rate of exchange. His main contribution to this topic lay in his drawing this distinction. The prevailing high rate he pronounced to be nominal only and therefore innocuous. For even a high real rate, Webster professed no fears. He pointed out that a high real rate would indicate nothing more than that funds were wanted by Americans in England for commercial or investment operations and would mean neither indebtedness, nor depression, nor an unprofitable trade with England.

Webster was attempting to demonstrate two truths in his discussion of foreign exchange: first, that a high real rate is not injurious to the prosperity of the country in which the quotations are high; and second, that the prevailing high sterling quotation was not real but apparent. With respect to the latter, he told his hearers that if money in England were bearing a real premium over money in the United

States, two circumstances would occur, namely, specie would be shipped in vast quantities, and the proceeds of goods exported to the continent would be sent to England to take advantage of the premium. Neither of these circumstances was taking place to the degree which Webster would anticipate in the event of a high real premium on a foreign currency.

In order to comprehend clearly "the true nature of exchange", therefore, one must bear in mind the distinction between real and nominal rates. A realization of the true state of the exchanges could be obtained, according to Webster, by a study of the comparative quantities of gold and silver which each country's currency represents. For example, upon the basis of a comparative study of the currency systems of Great Britain and the United States, Webster concluded that the true par of exchange, in 1824, was above the theoretical legal par. His explanation for the misrepresentation of the true rate by the apparent rate ran briefly in the following way. England was a gold standard country; the United States, a bimetallic country with silver tied to gold by a fixed valuation. For this reason, the value of silver as compared to gold in the United States was slightly higher than that attributed to it by single standard countries. In this way, thought Webster, a different value of silver with respect to gold was established at home and abroad, thus accounting for the apparent differences in the exchange rates. As a very simple illustration, Webster showed that for a given quantity of gold needed to pay a debt in the United States more than enough silver to meet the obligation could be purchased in England. The demand for British silver, he stated, tended to raise the quotation of sterling exchange and to create a disparity in the rate which was nominal only.

The validity of this explanation must depend upon the

fact that silver would make up the greater part of the circulating medium, and Webster was quick to perceive this. He said: "Silver remains in the United States as the legal currency while gold goes abroad, thus verifying the universal truth that if two currencies exist of different values that which is cheapest will fill up the whole circulation." [1] It is significant that Webster drew freely, as he did in this case, upon the doctrines of political economy in order to explain the various problems which confronted him. Perhaps he entertained a more profound regard for the science than he led his hearers to believe.

His treatment of foreign exchange serves admirably to illustrate Webster's method in approaching a problem. Always rejecting the doctrinaire's faith in sweeping generalization, Webster focused his mind upon each particular problem as it arose and upon all the circumstances which bore upon it. He possessed the rare faculty of reaching to the essence of any difficult situation through masses of extraneous and misleading material. Such a quality as this enabled him to distinguish between appearance and reality in respect to the situation prevailing within the sterling exchange market in 1824 and brought to light a highly interesting, if not entirely correct, explanation.

[1] Speech on the Tariff, 1824, *Works of Webster*, vol. iii, p. 128.

CHAPTER IV

Tariff Views from 1814 to 1828

Webster's first term in Congress began in May 1813, and coincided with the entrance of the protective tariff as a great issue in national life. Prior to 1812, the problem of protection entered but slightly into the deliberations of Congress. The first great clash over protection took place in the spring of 1814 between Calhoun and Webster on the question of the continuation of certain war time double duties on importations. Calhoun proposed to retain the double duties as a protective measure. Webster was not slow to respond to this threat of transforming purely revenue duties into devices designed to promote manufacturing. He expressed his opinions on this matter in a speech delivered before the House. "To double duties on all articles for encouraging domestic manufacture of some is preposterous and absurd," and "that duties on tea and sugar should encouage the manufacture of cotton and woolens is ridiculous".[1] These excerpts from the 1814 speech illustrate his point of view very effectively. It was this same speech in which Webster declared his opposition to any policy which would "rear industry in hot beds" and would bring Sheffields and Birminghams to America in great haste, forcing capital into manufacturing faster than it would naturally flow. He preferred a policy of *laissez faire,* but if government interference had to come, he proclaimed it to be

[1] Speech on the Repeal of the Embargo, April, 1814, *Writings and Speeches,* vol. xiv, p. 43.

the duty of the government to protect all legitimate interests equally and not to extend its good will more to one occupation than to another.

In 1816, the principle of protection was introduced into the American revenue system by Calhoun, as an object incidental to the imposition of duties on imports. Webster prepared no address against the bill sponsored by Calhoun, probably because he perceived the futility of opposing a policy which the majority favored. His labors were confined to the work of obtaining substantial reductions from the original schedules before the bill became law. Such action was the outcome of his belief, expressed in 1814, that a steady gradual industrial growth was a far wiser economic policy for the government to pursue than a stimulation of rapid expansion by artificial means.

I. DEFENSE OF FREE TRADE, 1820

Webster did almost nothing in the way of publicly agitating for free trade until he made his notable Faneuil Hall speech in Boston in the year 1820, during the interim from 1816 to 1823, when he was not a member of Congress. The passage of the tariff law of 1816, embodying the principle of protection, had stimulated the investment of capital in eastern manufacturing establishments, especially cotton and woolen mills. Scarcely had the bill become law when the movement to establish still higher import duties began; and by the time Congress was ready to assemble in the fall of 1819 it had gained great headway. The opinion was general that the Congress of that year would consider favorably a proposal to revise tariff schedules upward, primarily because of pressure from the business interests which, though encouraged by the law of 1816, had become depressed by the trade recession of 1818 and 1819.

In the spring of 1820, a bill was introduced by Mr. Bald-

win, a Congressman from Pennsylvania, providing for material increases of the *ad valorem* duties. Clay enthusiastically supported the bill upon the basis of his favorite tariff argument, the preservation of a home market. The bill, passed by the House, was defeated in the Senate by a single vote, many New England representatives having voted for it because of the growing industrialization of their constituencies. Although the bill was defeated, it was understood that the protectionists would revive the subject at the next session of Congress in the fall of 1820. This was sufficient reason for extensive public discussion during the summer of 1820. Among the most famous of the great public mass meetings was the one held in October under the auspices of those engaged in agriculture and commerce whose sympathies lay in the direction of free trade. Webster was invited to address the assembly because his sentiments were known to be opposed to protection except that which was entirely incidental to the collection of revenue.

Webster's address on the tariff question, as it stood in 1820, was so profound a treatment that it merits careful and detailed consideration. Certainly a more convincing statement of the free trade or the " tariff for revenue only " position could scarcely be found anywhere. Webster's attack upon protection followed two lines—constitutional and economic.

In regard to the first, the accusation was made that Congress exceeded its legal authority by turning an incidental power into a principal. Prior to 1820, the protectionist plea was defended constitutionally upon the grounds that safeguarding domestic industry was a right incidental to the revenue power of Congress. Webster argued that if this be true, the incidental cannot be carried beyond the principal and, therefore, that duties levied solely for protection were unlawfully imposed. He urged Congress not to lose

sight of the true object of the revenue power; namely, the creation of government income. Nor did Congress possess, in his opinion, any " substantial and direct " power by which pure protection could be had or any general right to declare that particular occupations should be pursued in society while others should not. He thought it just as logical for Congress to levy a tax upon land for the direct purpose of forcing capital from agriculture into other pursuits as to assess import duties with no other purpose than to nourish the growth of a particular industry.[1]

That Webster clung all his life to the view that the revenue power was the real source of protection and that protection was of a purely incidental character is the opinion of Mr. Curtis.[2] The Madison papers which brought to light the intention of the framers of the constitution to include the power of protection within the commercial clauses had not yet appeared. When they were published, Webster became somewhat more moderate in his judgment concerning the constitutionality of the tariff laws. Speaking in 1820, however, he had nothing else in mind but the revenue power. At the same time, he contested Clay's claim that Congress derived its right to levy protective duties from the general power over foreign commerce, irrespective of the taxing power.

Turning now to the second line of attack, protection was vigorously opposed on purely economic grounds. Webster thought that as a matter of expediency, protection was unwise. Two reasons were advanced in justification of his opposition. In the first place, Webster condemned protection as an instrument of favoritism by means of which the government could discriminate between employments. A

[1] Speech on the Tariff, October, 1820 at Fanueil Hall, Boston, *Writings and Speeches*, vol. xiii, p. 6.

[2] Curtis, *Life of Daniel Webster* (New York, 1893), vol. i, p. 208.

policy of trade restriction, which Webster said could arise from either treaty stipulation or protective duties, would give preference to particular modes of investing capital to the detriment of the non-protected establishments, of the operations of government, and of private individual enterprise. The speaker was denouncing not only protection but any interference with trade, particularly the spirit which actuated the passage of such laws as the Navigation acts. Although he did not speak of them as such, it is clear that he held them in mind when he pointed to the English trade situation as an illustration of the failure of restrictive measures. He ventured the opinion that certain "enlightened nations" having tried the "artificial system" were growing weary of it. Without doubt he was mindful of the free trade movement in England and its rapidly increasing vigor, when he referred to "enlightened nations". While Webster was genuinely sincere in his belief that protection would be a mistaken policy for the nation as a whole, it must be remembered that much of his enthusiasm arose from the fact that he was acting as the spokesman in Congress for that economic interest which would gain most from free trade, the New England merchants and navigators.

The second economic reason, offered by Webster in support of his objection to protection, dealt with the immediate effects of protective duties. Not only would the government suffer a loss through the diminution of revenue, but also the community of consumers would be obliged to pay higher prices for their articles along with other taxes to compensate for the loss of public revenue. It had been proposed before 1820 that a government deficit be met by income from excise duties on salt, sugar, and other consumer's goods. Bitter denunciation of this proposal came from Webster. Its illogical character was readily perceived by him and was communicated to his hearers by the following

words: "There must be a tax on food in order that there may be a tax on clothing." [1] In contrast to the few who would benefit from such an "artificial elaborate system", Webster indicated the great number of people who would be injured by it. Mention was made particularly of those employed in navigation and commerce and of those domestic manufacturers whose articles might be taxed. He pointed out that an excise tax would have the effect of diminishing demand and would lead ultimately to a decrease in employment and industry. He appeared to be aware of a concept approaching that known as "elasticity" when he demonstrated that a tax, whether an import or an excise duty, affected the demand for some commodities more than others.

A quotation from this speech will serve to summarize Webster's views respecting the twofold manner in which the consumer might be affected by the imposition of protective duties. "Every man in the community not immediately benefited by the new duties would suffer a double loss. First, by shutting out the former commodity, the price to the domestic manufacturer would be raised. The consumer must pay for it and insomuch as government will have lost the duty on the imported article, a tax equal to that duty must be paid to the government. The real amount, then, of the bounty on a given article will be precisely the amount of the present duty added to the amount of the proposed duty." [2]

In order to strengthen his defense of the principle of free trade, Webster thought it necessary to refute certain claims advanced on behalf of protection by its supporters. One of these claims was concerned with national economic independence, a condition which protectionists said would be destroyed

[1] Speech of the Tariff, October, 1820, *Writings and Speeches*, vol. xiii, p. 13.

[2] *Ibid.*, pp 12 13

by unrestricted commerce. The general truth of this assertion was accepted, but he denied that any real value could be attached to it. His broad and far-sighted vision enabled him to perceive that interdependence, between nations as between individuals, was a fundamental law of human society in an advanced stage of civilization. "The whole fabric of civilization rests upon a dependence of this kind." [1] He was unable to agree that an exchange of commodities between nations when mutally advantageous rendered one country dependent upon another in any way derogatory to their respective dignities.

Another protectionist proposition assailed by Webster was the contention that protection afforded both economic security and the means of self-defense in war time. He believed the point to be carried much too far and could find no justification for changing occupations and habits at any one time solely because of the possibility of future warfare. Webster was a great peace lover and saw no reason for anticipating war at all. He was content with the American capacity to create the instrumentalities for fighting wars by the application of its resources, its industry, and its commerce to military purposes. His greatest faith, however, was invested in free commerce as the best means of obtaining, from other countries presumably, the necessary articles of war. Webster always was a lover of a strong navy and merchant marine, at the same time advocating the smallest possible military force.

The general opinions of Webster regarding tariff problems expressed in the Fanueil Hall address are not the only ones to which attention ought to be called within these pages. It may be of value to denote very briefly some of the more specific criticisms directed against the Baldwin Bill insofar as they reveal other significant views of Webster with respect to economic thought or action.

[1] *Writings and Speeches, op. cit.*, vol. xiii, p. 14.

The bill of 1820 brought up the question of the repeal of the system whereby the government granted credits, for the payment of duties, to small-scale merchants. Webster heartily approved of such a plan and ardently opposed its repeal. Another practice which the same bill sought to abolish was the drawback system supported by Webster on the grounds that it encouraged a type of commerce which would make the United States an entrepôt. Webster pointed out that a large proportion of the American foreign trade between 1795 and 1817 consisted of that type of commerce in which the importation of certain articles was followed by their exportation. Again, Webster warned that protection, in diminishing if not totally destroying commerce, would deprive the nation of both the merchant marine and the supply of sturdy seamen for the navy. Finally, Webster called attention to the fact that much had already been done for the manufacturer and that the encouragement offered by previous legislation was sufficient to develop the factory system as rapidly as the general good would allow.

These pronouncements on tariff and trade, though constituting an unqualified and determined endorsement of the free trader's position, were expressions tempered with moderation. Webster's conservative disposition precluded the possibility of his capitulation to fanatical enthusiam, no matter what the cause to which he was devoted. Furthermore the views expressed in 1820 on free trade were in complete accord with the orthodox New England Federalism of that period. Webster was never known to lose touch with the opinions of his constituents or to act in opposition to the wishes of the majorities which elected him to public office.

In conclusion, it may be said that the Fanueil Hall address, a discourse copiously supplied with stimulating economic thought, exhibits its creator in the position of one who, though fundamentally conservative, was tinged with the

economic liberalism of the early nineteenth century. Particularly Webster's opinions of such questions as trade, tariff, and industrialism revealed a partial acceptance of the liberal point of view. This speech, on account of its energy, its good sense and soundness, its indication of an unmistakable aptitude for straight thinking about trade and tariff, both in theory and practice, stands second only to one other deliverance on the same subject matter—the great speech of 1824, and to that, attention now will be directed.

2. TARIFF OF 1824

Between 1820 and 1824 the United States suffered from a general, though not extremely serious, depression which has been attributed to many causes, such as the trade reaction in Europe after the restoration of peace, deflation abroad due to the reestablishment of specie payments, the general fall of prices, the readjustments in this country occasioned by the tariff law of 1816, and other less discernible factors. During this period, public attention was directed to the claim of Henry Clay that the sole salvation of the country from chronic industrial illness was a high protective tariff. By means of this instrument, Clay hoped to create a great home market for American raw materials and agricultural produce and to build up American iron, hemp, textile, and shipbuilding industries to the point of independence of foreign competition. Only in this way could general prosperity be restored, Clay said. To support his contention he turned toward Europe and attempted to prove that protection alone enabled foreign nations to withstand the serious effects of international competition. He insisted that we must resort to the same method which the wisdom of other nations have found to be effectual, namely, adequate protection.[1] Clay won to his side hosts of active disciples.

[1] Speech by Henry Clay on the Tariff, March, 1824, House, *Works of Henry Clay*, edited by Colton, New York, 1904, vol. ii, pp. 138-175.

Although President Monroe's messages to Congress for three years had urged a reconsideration of tariff schedules with the end in view of a moderate revision upward, a bill embodying these changes was not drafted until the early spring of 1824. Clay personally was partly responsible for the arrangement of the bill, relying mainly upon English experience for its justification, proving, as he thought, that English prosperity was based upon protective duties. When the bill came before Congress, he became its most active champion, regarding it virtually as his own project, and delivered a remarkably able speech on its behalf. Clay's address in its complete form was made on the last two days of March. On April 1st and 2nd, Webster, who had returned to Congress after an absence of six years, made his reply. Speaking as a representative of a district highly commercial and also becoming more interested in manufacturing, he attacked the principle of the bill but at the same time supported certain clauses of it. Of these two great speeches, Carl Schurz has said: "Together they are as interesting an economic study as can be found in our Parliamentary history".[1]

Only those contributions to economic thought or policy, made in connection with the 1824 tariff discussion, which are regarded as salient will be discussed in these pages. No attempt is here made to follow to the letter the order which Webster selected in which to unfold his argumentation. The subdivision of the subject matter of this speech as it is given below is, it is hoped, a justifiable condensation and clarification of the original material. It serves the purpose best to arbitrarily divide the discussion into five separate parts, four of which are treated fairly briefly. The last part, namely, the exposition of Webster's economic views

[1] Schurz, *Henry Clay* (New York, 1899), vol. i, p. 218.

arising out of the analysis of particular clauses of the bill, will be given the longest treatment.

The first point dealt with Clay's "American System." Webster refused to recognize any reason for Clay's allusions to protection as an American instrument, and to those who advocated a foreign market as "partisans of the foreign policy." Webster did not see how a system which had never been tried in America could with justice be called "American," especially after Clay had admittedly drawn his bill and supported it by means of the experience of foreign countries. Neither could he understand how a policy which America had pursued and other countries had abandoned could be described as "foreign." Webster held the opinion that "the true American policy is that which shall most usefully employ American capital and labor and best sustain the population." [1]

The second important point, suggested by the Clay-Webster debate, sprang from the contention of the former that acute economic distress had swept the country and that the only true remedy was high protection. Webster, of course, challenged this claim, both as to the existence of industrial depression and the remedy to be applied in the event of its occurrence. The controversy over these issues brought to light many interesting views entertained by Webster with respect to paper money, prices, depressions and their remedies. Although moderate prosperity in New England and the absence of severe suffering throughout the country gave Webster some grounds for asserting that a widely spread depression was non-existent, there was admission on his part that the state of profits and prices was low and that appreciable business stagnation existed. The purpose of Clay's speech was to demonstrate that low prices were occasioned

[1] Speech by Daniel Webster on the Tariff, April, 1824, *Works of Webster*, vol. iii, p. 96.

by foreign competition, diminution of exports, and the absence of high tariffs. Webster's interpretation of the existing price situation was quite different. He could find no evidence for Clay's explanations and particularly for his assumption that lack of protective duties was the responsible factor. As a consequence, he pronounced Clay's proposed remedy to be valueless. His own explanation of the low state of prices displayed once more his familiarity with the fundamental laws operating in a money economy. He rejected Clay's faith in sweeping generalizations and panaceas and analysed what he thought to be the real forces at work. He ascribed the fall in prices to the reaction which occurred after the inflation of the Napoleonic period, to the drain of specie to central and eastern Europe following the negotiation of the French indemnity loan of 1818, and to the restoration of peace and specie payments abroad. The general inflation, mentioned above, was also explained by enumerating the particular circumstances which were responsible for it. Webster considered them to be the great demand for American commodities during the wars, enhanced government expenditure to fight the second American war for independence, and above all, the excess paper-money issues of American banks.

A slight digression concerning a matter mentioned in the previous paragraph may be permitted. Clay maintained that the flood of bank paper was a consequence of the alleged economic distress, whille Webster pronounced it to be the cause of whatever stagnation existed. He pointed out that the loudest complaints of suffering came from those communities where the paper credit system had been used most widely. The principal cause of the spotty condition of business prosperity was not thought by Webster to be inadequate tariff protection but the instability and uncertainty injected into the industrial system by depreciated paper

money. He said: "Irredeemable paper is the most prominent and deplorable cause for whatever distress there may be." [1] True protection to industry and the end of industrial distress Webster thought could be achieved not by the creation of artificial restrictions upon commerce but by the extermination of depreciated paper currency and the stabilization of prices, thus securing to industry all of its earnings. The most dangerous threat to American industry was not foreign competition but "interfering with the legal value of money or attempting to raise artificial standards of value to supply its place." Such an operation, through the medium of irredeemable paper, "weakens the security of property and take away all motive for exertion." [2] With these economic reasons as a basis, Webster felt himself justified in denouncing Clay's bill for its failure to understand the real causes of business stagnation and to offer a true remedy.

The third part of this discussion relates to a point raised by Webster in this great debate; that is, the justice and expediency of the protective tariff policy from the broad viewpoint of the entire national economy. Clay's position was charged with narrowness and with a desire to favor manufacturing at the expense of other occupations. Webster objected to Clay's implication that American "industry" was confined to the production of manufactured goods alone. To him, the appellation meant all "legitimate" occupations in society, every one of which he declared himself to be in favor of protecting. "Gentlemen say they are in favor of protecting industry. So am I. But all domestic industry is not confined to manufacturing. Agriculture, commerce, and navigation are all branches of it; they all furnish employment

[1] *Works of Webster, op. cit.*, vol. iii, p. 103.

[2] *Ibid.*, pp. 102-103.

to labor and capital." [1] He went on to say: "We are asked what nations ever attained prosperity without encouraging manufacturing; I ask what nation ever reached like prosperity without promoting foreign trade?" The well being of the whole economic system, he thought, depended upon the protection of all of its parts. He feared that protection of manufactures alone would result in sudden transferrals of capital and labor from occupations in which they were well employed to others where they would be less efficiently utilized.

Webster, then, was not averse to moderate protection of one branch of industry as long as it could be afforded without injustice to other branches. Two of his own remarks serve to bear out this point. "Protection and encouragement may be at times wise and beneficial if kept within proper limits;" and "what I object to is immoderate use of the policy," by which he meant the suppression of competition and the creation of absolute prohibitions.[2] He saw another grave danger of a protective policy applying exclusively to manufacturing, that is, the imposition of a great injustice upon both agriculture and commerce. The shipping interests would be injured in a twofold manner, by the curtailment of freights and by the increased costs of shipbuilding materials, such as hemp, which had to be imported. With respect to agriculture, Webster did not believe that a great home market could be created artificially, although he asserted himself to be in favor of such a thing. In his later years, Webster completely swung over to Clay's position as regards the efficacy of the protective tariff to establish the home market. Webster's moderation is further demonstrated by his unwillingness to oppose every tariff which granted incidental protection. He even supported, though mildly, the principle

[1] *Works of Webster, op. cit.*, vol. iii, p. 105.

[2] *Ibid.*, pp. 130-132.

of the "competitive tariff". Drawing a distinction between absolute exclusion of imports and reasonable encouragement, he said that it was one thing to awaken home production and competition by taxing foreign commodities; it was another to remove all competition by total exclusion and it was still another thing, by exclusion, to create domestic manufactures ill adapted to the resources, climate, and state of the population.[1] Webster in these words virtually restated his faith in the principle of comparative natural advantage and in the purely incidental character of "reasonable" protection. Again, he defined his position very clearly by means of the following unequivocal statement regarding the general principle of protection: "I do not admit the general principle; on the contrary, I think freedom of trade to be the principle and restriction the exception."[2] To conclude, Webster's breadth of vision led him to observe the harmful consequences to the economic life of the United States as a whole in the event of establishment of high protection. Paralysis of the entire economic system might follow, in the opinion of Webster, the application of high protection to one occupation at the expense of the others.

The fourth part of the analysis of Webster's tariff views in 1824 may be disposed of speedily. A considerable amount of time was spent in going over the tariff situation as it stood at that time in Europe and particularly in England. Because Clay had defended the English tariff and had modeled his "American" system on English practice, Webster gathered opinions from many Englishmen of high standing in order to prove his claim that the policy of prohibitions and restraints was falling from repute in that country and that faith in individual enterprise was returning. Extensive citations from English authorities whom he was careful to

[1] *Works of Webster, op. cit.*, vol. iii, p. 108.

[2] *Ibid.*, p. 116.

describe as "practical men, not theorists", displayed his familiarity with the current economic opinions of the old world. He quoted from Huskisson, Lord Liverpool, and Lord Lansdowne along with many others to lend support to his own idea that the greatest happiness for all would be best promoted if the principles of international specialization and unrestrained trade were adopted by all nations. In spite of the opposition to protection on the part of these distinguished men and their followers, England's exclusionist policies in large measure were suffered to remain. Webster, himself, offered an explanation of this in the following manner: "if a thing is wrongly done it does not follow therefore that it can be undone".[1]

The fifth and last part is comprised of those economic opinions of Daniel Webster which sprang from his critical examination of particular clauses of Clay's 1824 bill. The four preceeding parts have dealt more with those thoughts arising out of the general propositions which underlay the bill. The proposed increases, found in particular clauses for special economic interests, caused Webster to enter another earnest plea for moderation. He pointed out, as he had done in 1816 and again in 1820, that the protectionists failed to consider what had already been done for American manufacturing. That the tariff of 1816 was distinctly a protective measure under which many producers were flourishing, was his firm conviction. In spite of this, however, he was not ready to agree that rigid protection would generate prosperity. On the contrary, he held the opinion that the community would suffer adversely because the consequences of protection were unemployment and higher costs of living; the prices of both foreign and domestic products were raised.[2]

While Webster was engaged in discussing the specific

[1] *Works of Webster, op. cit.*, vol. iii, p. 108.

[2] *Ibid.*, p. 130.

provisions of the bill, he had occasion to reply to one of Clay's defenses of protection; namely, that free trade constituted a direct subsidy to foreign labor at the expense of domestic labor. He upheld the view that every foreign-made article was as thoroughly American as if Americans had manufactured it themselves, because domestic labor created something else to exchange for it, either directly, or by first selling it for money to a domestic consumer and then purchasing the foreign commodity. Webster even maintained that foreign articles, obtained by exchanging them for domestic articles, could be considered as part of the national wealth of the United States. For example, Webster would agree that if one man at home made a yard of cloth and another raised a bushel of wheat and exchanged it for a yard of foreign cloth, both yards of cloth would constitute the earnings of domestic industry. This reasoning gave additional support to his belief that no employments should be distinguished as peculiarly American and that it was not within the province of government authority to suppress one method of obtaining articles for the benefit of another.

Webster's exhaustive analysis of separate industries, as affected by the specific provisions of Clay's bill, can be given only a very brief treatment. One of these provisions related to the duty on wool. While advocating a slight increase on woolen cloths, he opposed a higher duty on raw wool because he belived it would check the supply destined for the manufacturer and would curtail his demand for it, thus defeating the object of the duty which was the protection of the wool growers. His advocacy of a higher duty on woolen goods foreshadowed the position he was to assume on the tariff of 1828. New England was becoming industrialized and parts of it were swinging toward protection as a national policy. Although Webster denounced in vigorous terms practically every proposal to augment duties on imports, a notable

exception was made in the case of glassware imported from England. Because England had placed a bounty upon the exportation of that commodity, Webster favored an impost equal to the bounty in order to insure competition. It is probable that another of his motives in favoring such a duty was a desire to retaliate.

Of all Webster's criticisms against higher duties, the most bitter was that one directed toward the clauses establishing greater levies upon imported iron manufactures. He was led into a prolonged analysis of the iron industry which enabled him to explain why, with an abundance of good ore and a constant demand for products, the United States did not work her own iron, and why she imported so much from Russia and Sweden. Since this was before the introduction of great economics through large-scale operations, his explanation based upon the difference in wage scales at home and abroad was no doubt correct. Like Ricardo, he believed that the chief ingredient in cost was labor and therefore, if America manufactured her own iron products, it would cost her what she could afford least. The cheap "serf" labor, as he called it, of Russia and Sweden gave those nations power to produce iron more cheaply. He did not look with favor upon nourishing artificially an industry which he said could not maintain itself. "Because we have mountains of ore is no reason for working it," he maintained. Labor would be far better utilized in some other employment. Of course, he expressed his gratitude that the United States did not possess the masses of ignorant underpaid workers which would have made possible a flourishing iron industry without government encouragement. Comparative labor costs in almost all instances bulked largest in Webster's analyses of relative advantage as the basis of foreign trade. After 1828, however, Webster scarcely mentioned comparative costs and advantage, for at that time, as a matter of expediency, he abandoned his free-trade position.

A great deal more could be written about Webster's tariff views in 1824 but inasmuch as the principal trends in his thinking have been described in these pages, the less significant points may be omitted. In order to appreciate the subsequent shift in Webster's tariff position, it must be remembered that in 1824 Webster was the acknowledged champion of a community which was largely commercial. His condemnation of iron, hemp, and copper duties was made in defense of the shipbuilding and navigating interests of New England. One of his general criticisms of the Clay tariff measure lay in the charge that one interest was being overburdened for the benefit of others. Such a policy brought from him the bitterly sarcastic comment: "So this is called protection." If protection were for the good of the whole, as he thought it should be, then the whole, and not a part, should make the necessary sacrifices. The last words of the 1824 speech carried an appeal to the nation not to overburden the languishing shipping industry of the United States.

Having concluded the exposition of Webster's views on the tariff, as they existed in 1824, a few summary remarks will be made before passing to the tariff situation of the year 1828. The following quotation admirably recapitulates his position on extreme protection: "The doctrine of prohibition as a general doctrine is preposterous. If all nations act upon it, then they will be prosperous in proportion to the extent to which they abolish intercourse with each other, and the less the mutual commerce the better. The absurdity of such a doctrine carried to an extravagant height manifests itself." [1] In spite of the vigor of his speech in 1824, he was no less the mederate in 1824 than he was in 1814 and 1820. He was not attacking reasonable and moderate protection but prohibitions and the abolition of international intercourse and competition.

[1] *Works of Webster, op. cit.*, vol. iii, pp. 131-132.

As a matter of principle and theory, and as an economist and statesman, Webster was in 1824 and remained throughout his life a free trader, reposing his faith in individual action and unrestrained trading. However, as a legislator and "practical" man, he made no pretense of going all the way with his theories. He recognized and accepted, as an expedient, at least some protection of domestic industry and he tried to govern his actions in public life in accordance with this view. He hoped to see the following three objects accomplished by means of his "moderate and reasonable" encouragement: first, the perpetual flow of the currents of commerce, though modified somewhat, without injury to the shipping interests or to the national treasury; second, cautious encouragement of manufacturing without stimulating its growth faster that the "natural" rate of progress; and third, the equitable distribution of the benefits of protection among all branches of enterprise.

After a deliberation of two weeks, the bill of 1824, tho' slightly modified in some of those clauses most obnoxious to Webster, passed both houses by a close vote. One very important feature remained unchanged, however, and that was the high duty on raw wool designed to safeguard the wool growers of the middle west. The action of this duty neutralized the advantages anticipated by the wool manufacturers from the higher duties on woolen goods. The grievance of the woolen capitalists, combined with disillusionment felt by other interests, led to agitation for a new measure which ultimately took definite shape in Congress as the "Abominations tariff of 1828". The movement for greater protection was heartily supported by most of the textile mill owners of New England whose operations had been aided by the law of 1824, and who, in 1828, demanded higher duties.

3. TARIFF OF 1828

Inasmuch as the tracing of the historical background of the "Abominations" bill between 1824 and 1828 and the explanation of the curious process by which its extreme schedules were drawn up are beyond the scope of this paper, attention is to be concentrated only upon the thoughts of Daniel Webster concerning the measure. Webster's address on the bill, constituting his second celebrated tariff speech as a member of Congress, was delivered in support of the principle which the bill embodied; that is, high protection. It was a short and simple discourse but none the less remarkable because of the surprising and apparently complete change of position on the tariff issue. It contained no significant contributions to economic or constitutional theory nor did it possess the intellectual and scientific value of the speeches of 1820 and 1824 both of which showed Webster to be a master in the field of economic thought. The principal reasons for its rendition were twofold. It was delivered to explain the speaker's position in supporting the principle of the bill, and, at the same time, to attack several of the "abominations" clauses.

This address marked the end of Webster's career as the champion of the purely commercial interests of New England. Rising in the Senate to defend the bill, he acted on behalf of another special interest of the northeast, the woolen manufacturers. No longer was he the spokesman of the old New England Federalism of enlightened individualism and liberty of action. New England had launched upon an industrial career after 1824 and Webster's views respecting the policy of protection followed those of his constituents. He became virtually a collaborator with Clay as an advocate of high tariffs and the American system. Doubtless, he felt his situation very keenly for in his address before the Senate,

he said: "this subject is surrounded with much embarrassment".[1]

The opening parts of this speech were directed against the principle of sectionalism which he deplored with all his being. He saw the forces of sectional jealousy at work upon this bill and feared that might lead to the destruction of that noble ideal to which he devoted most of his life, the Union indivisible and indestructible. He denounced the charges made against the alleged desire of New England to secure a monopoly for her own capitalists by means of the bill of 1828. "New England has not been a leader in this policy of protection. Up to 1824, she was accused of selfish designs because she discountenanced the progress of this policy."[2] Webster then explained that New England was obliged to swallow the bitter pill of 1824 against her will because she had nothing else to do but follow the will of the majority. He went on to defend the views of his constituents, and, of course, his own: "Up to 1824, the opinions of New England were founded upon the conviction that it was wisest, both for herself and others, to make haste slowly. She felt reluctance to trust great interests to government patronage for who knows how long such patronage will last?"[3] Webster maintained that because the government had determined upon the protective policy, New England could only follow and make the best of her position by applying her abundant resources of capital and labor to manufacturing. He regretted that commerce could no longer be the principal source of income and prosperity to his constituents.

The preceding paragraph contains the essence of the 1828 speech,—the defense of Webster and the industrialists of

[1] Speech by Webster on the Tariff of 1828, May, 1828, *Works of Webster*, vol. iii, p. 228.

[2] *Ibid.*, p. 229.

[3] *Ibid.*, p. 229.

New England against the charge of inconsistency. A secondary purpose of this speech was to make an attempt to rid the bill of its "abominations" but at the same time to sustain the claims of the woolen manufacturers for higher duties. Only two of the features most abominable to Webster need be offered as illustrations. His attack upon the molasses duty was purely sectional. He feared the curtailment of what he regarded as a very profitable and beneficial trade, namely, the intercourse with the West Indies in which New England manufactures and lumber were exchanged for molasses. Another duty, still more obnoxious to him, was the impost laid upon hemp, which he maintained would be borne solely by the commercial interest and would not stimulate the growth of suitable hemp at home. In opposing these two "abominations," Webster exhibited a desire to continue to serve as the spokesman of the ship builders and navigators, as he had done in previous years. The speech even contained another plea on behalf of commerce. However, the effectiveness of his words was considerably lessened by his new position as spokesman in the Senate for the northeastern textile capitalists. It was not easy to preach free trade on behalf of one economic interest and protection for another.

The extremely high duties on raw wool and the manufacturers' demands for heavier imposts upon woolen cloths Webster evidently did not consider to be "abominations". The wool growers' petitions for protection he felt to be perfectly justifiable, a point concerning which he had changed his attitude since 1824. Realizing that a policy of greater impositions on wool meant higher expenses of production to the manufacturer, Webster was compelled to support the claims of the latter. Furthermore, New England inhabitants had invested heavily in industries, particularly woolen mills, fostered and protected by Congressional action of 1824 and therefore Webster thought they possessed a right to

demand further protection from Congress whenever it was necessary to do so.

It does not seem just to accuse Webster of inconsistency or of completely foresaking his cherished principles. It is true that he had worked vigorously in opposition to every high tariff proposal up to the year 1828, but it is also true that he did not approve of the entire bill of 1828. His action in voting for it cannot be explained in terms of an abandonement of principle but on the simple grounds of expediency. The country had abandoned free trade and even moderate protection, obliging his own New England to relinquish these policies also; and Webster, as a representative in the Senate of one of the New England commonwealths, felt himself under obligation to follow the same course. He did so, however, only as a matter of policy, remaining devoted to the principle of free trade all his life. Considerations of expediency, then, and not abandonment of principle explain Webster's change of position from moderate to extreme protection.

On the constitutional right of Congress to pass protective measures, Webster was discreetly silent in 1828. In later years he was obliged to assert himself on that question. He never accepted completely the Clay doctrine that the power to lay protective duties was derived from the foreign commerce clause of the constitution. While adhering to his original position that protection was incidental to the revenue power and not the principal, he no longer doubted, as he had in 1814 and 1820, the direct right of Congress to enact protective tariffs under the general welfare clause of the Consituation. It had become in his mind, after 1828, a question of "res adjudicata".[1]

[1] Ogg, *Daniel Webster* (Philadelphia, 1914), p. 185.

CHAPTER V

Tariff Views After 1828

I. The Hayne Debate and the Clay Compromise of 1833

Two years after the 1828 address, Webster made what is generally agreed to be the greatest declamation of his career as a public servant—the Reply to Hayne. Three allusions to the tariff question were contained in it but none suggested any significant change in his position. First, he continued to question the action of Congress in justifying its protective measures by the revenue power. Secondly, he defended his 1828 vote as an expression of a desire to establish an equal tariff. At least in theory, Webster did not believe in the unequal protection of the laws. Finally, he thought it essential to explain once more his apparent inconsistency of 1828. Hayne had criticized him for his action and in doing so had lauded his 1824 speech highly. The compliment, Webster said, was made "to raise me high that my fall in 1828 may be more signal. There was no fall. Between the ground I stood on in 1824 and in 1828 there was no precipice, no declivity. It was a change of position to meet new circumstances but on the same level." [1]

Attention in these pages is confined to the economic, and not to the political or constitutional, aspects of the great issues in which Webster played an active part. The nullification controversy, then, is omitted in order to come at once to the very brief examination of Webster's views on the

[1] Second speech on Senator Foote's resolution, January, 1830, *Works of Webster*, vol. iii, p. 304.

tariff bills of 1832 and 1833. The bill of 1832 was designed to reduce some duties to a revenue standard without rescinding the principle of protection. It was denounced by Hayne and the anti-protectionists for its allegation that protection was the settled policy of the country. Webster made no speech on the bill, confining his actions to intervention for the proper adjustment of particular duties.

The purpose of the Compromise bill of 1833 was like that of its predecessor, that is, to preserve the principle of protection as the national policy while establishing a general reduction of all duties to a revenue basis. Clay's speech on the bill declared its purpose to be to save the tariff principle, by a temporary suspension and not a permanent abandonment of the power of protection. Webster entered the lists against the bill with all his strength. On February 12, he announced his reasons for doing so: because the bill was a blow at protection and high wages and because it neglected to discriminate wisely between different classes of commodities, as luxuries and articles of general consumption.

On the following day, after presenting a resolution, more reasons were added by Webster.[1] He objected to the bill because it tied the hands of Congress by restricting its future powers. As for the relinquishing of the power of protection, even though temporarily, he maintained that for better or worse the country had adopted protection in 1824 and that it could not be abandoned to leave unguarded business establishments which had grown up under it. A third objection was based upon the substitution of *ad valorem* duties for specific in a number of cases. Webster was always fond of the principle of specific duties, and of this question more will be said later. Three years after the Clay bill of 1833 became law, Webster was describing it as the

[1] Remarks on the tariff following reading of resolution, February, 1833, *Writings and Speeches*, vol. xiv, pp. 160-166.

"great error" in the American tariff system because of the *ad valorem* feature. A fourth reason for Webster's position seems to be a reversal of the truth. He thought that suspension of protection would mean the surrender of the interests of small capitalists to the "overgrown" monopolists. Today the argument is used for precisely the contrary purpose, to attack protection. Webster meant that the weaker producers would not be able to withstand the rigors of foreign competition as well as the powerful ones. Finally, Webster feared that a serious surplus revenue problem would be precipitated by the augmented importations under reduced duties, a circumstance which, as testimony to his keen insight concerning economic questions, actually occurred not long after.

2. THE DEBATE WITH CALHOUN

Every utterance made by Webster after 1828 on the tariff question was in support of the principle of protection. Between 1833 and 1840, he said but little concerning this issue. On March 3, 1840, he delivered an extensive discourse, in reply to Calhoun, containing what purported to be a refutation of the latter's reasons for maintaining that the country should establish a free-trade policy. The title given to these comments in Webster's works is "The General Effects of Protection." [1]

Calhoun had levelled a number of specific charges against protection and Webster took them up, one by one, examining each very carefully. Some of Webster's responses are richly endowed with stimulating, if not always correct, economic thinking. Only the more important points in this debate will be discussed here. The first proposition of Calhoun had to do with incidence of protective duties. He was con-

[1] Speech on the "General Effects of Protection," March, 1840, *Works of Webster*, vol. iv, pp. 530-540.

vinced that the exporter bore this burden and particularly the southern exporter. Webster responded that the consumer not the exporter, paid the duty and that each section of the community paid in proportion to the amount consumed. From this reasoning he deduced that protection could not be an unfair burden upon any one part of the country.

Another part of Calhoun's argument dealt with the supposed effect of protection upon the general price level. By a process of ingenious reasoning, Calhoun explained that protection would mean diminished imports causing an inflow of gold, exports remaining the same, and an augmentation of prices. He feared that this would create a demand for still higher duties. Webster's replies to these opinions revealed once more his wide knowledge of fundamental economic truths. In the first place, he attacked Calhoun's major premise by saying that imports do not necessarily fall off with increasing manufactures at home since exports must be paid for in one way or another. "In a series of years and taking all countries and branches of trade, the imports will equal the exports and the earnings of freight," [1] a principle of Webster discussed under "International Trade." Webster believed that the free list alone would absorb great quantities of exports. For this and other reasons, he maintained that the import trade would not be curtailed by protection. In the second place, Webster pointed out that specie cannot flow continually for any great length of time into any one country. The true function of specie in international commerce he held to be merely to settle an occasional balance in trade. Therefore, specie flowing to a given country soon might be sent away. He saw other causes for specie flow than the one emphasized by Calhoun. "There are vibrations in trade and gold and silver correct these vibrations." [2] By

[1] *Works of Webster, op. cit.*, vol. iv, p. 532.

[2] *Ibid.*, p. 532.

vibrations, he meant wars, panics, political crises, and crop shortages, any one of which could set in motion a flow of specie independently of the merchandise balance of trade, and disturb the "natural course of commercial dealings." Thus, a heavy specie import could not be a necessary indication that imports had dropped below exports by the amount of the specie. To conclude, Webster adhered to the principle that protective duties did not necessarily give rise to inflation of the currency in the way assumed by his great colleague.

Webster had more to say about the general proposition mentioned in the preceeding paragraph. He challenged Calhoun's claim that protection and the alleged currency expansion would inevitably increase costs and prices of manufactures. He interpreted the results of protection in an entirely different light. Increase in the prices of goods could be possible, he stated, only if the price of labor were augmented. This remark was a restatement of Webster's general labor theory of value in another way, though "labor" was never used by him in the narrower Marxian sense. By way of illustration, he asserted that the 1828 tariff, admittedly a protective measure, had raised neither the price of labor "greatly," nor prices to the consumer. He thought the effect of that law, rather than to raise prices, was to stabilize them and to guarantee to American labor a steady return. Therefore, he argued that protection could not raise prices because it did not increase the price of labor, though it assured labor a reasonable income.

After demonstrating, to his own satisfaction at least, that protection was an indisputable benefit to American labor and industry, Webster turned to indicate the general effects of the policy on consumers. He held them to be even more salutary for the consumer than for labor because the force of international competition would actually lower prices. The acceptance of this view was a complete reversal of his position

in 1824 when he asserted that protection would swell the prices of consumers' goods. "Under protection, the common price of goods becomes less. No one can deny that. This is the effect of competition."[1] That is, if, in the absence of protection, domestic manufactures were not on the market, prices would rise. In a later speech, he pointed to the fall in the price of coal of about two dollars per ton between 1842 and 1845 as "good proof that prices fall as a result of protection."[2] The remarks made in 1840 are especially interesting if related to the opinions expressed by Webster in 1824 and 1828. He signally failed of his intention in 1840 to use his words in defense of his alleged inconsistent action in 1828. Rather then diminish, they added to the confusion which surrounded his action. It appears that Webster was speaking in 1840 of the "competitive" rather than of a prohibitive tariff. It is not always clear precisely which kind of a tariff he was supporting in his many speeches favoring protection. In some he seemed to advocate even prohibition but in general he had in mind the competitive tariff. Again, in a few cases he seemed to be quite confused himself as to the nature of a particular tariff measure. It is difficult, for example, to reconcile his condemnation of the prohibitive principle in his earlier speeches with his complacency toward some of the absurdities of the 1828 bill. It seems necessary to assume that he regarded it as a "competitive" tariff since in the same breath almost, he upheld, in the 1840 debate, the principle of international competition and the policy of the 1828 law.

Furthermore, Webster assumed without question the automatic beneficent operation of the "competitive tariff." He ignored the fact that the equalization of domestic and foreign costs might be impracticable owing to the flexibility and

[1] *Works of Webster, op. cit.*, vol. iv, p. 534.

[2] Speech on the Tariff, July, 1846, *Works of Webster*, vol. v, p. 209.

variability in the costs of different firms. His faith in the competitive principle was surprisingly naive. Another palpable defect in Webster's reply to Calhoun can be detected. It is not consistent for him to maintain, as he often did, that prices would be lowered by protection and at the same time the "price of labor" remain the same or even rise. He told his hearers many times that "the price of labor" was the chief ingredient in consumers' prices. Therefore, lower prices could not help but mean a lower price for labor since the parts cannot be greater than the whole. Nevertheless, Webster clung to the idea that "reasonable protection may not raise the price of labor yet it should raise it in some degree." [1]

For the first time in Webster's speeches and writings the famous diversification of industry argument appeared in his 1840 discourse. Protection was lauded on the grounds that it contributed to a multiplication of the modes of employment. "One of the secrets of prosperity is that there shall be a variety in the pursuits and labors of men." [2] He charged the south with failure to recognize the "full influence of this important truth." The espousal of the diversification argument did not harmonize well with Webster's repeated approbations of the principle of international specialization. His protectionism was further buttressed by an endorsement of the Clay home-market principle in this speech, revealing another change of opinion since his free trade enthusiasm had waned.

Extensive disputation occurred between Calhoun and Webster over the issue of the home market. Calhoun indicted protection partly because he believed it would rob the agricultural south and west of their great foreign market. Web-

[1] Speech on the "General Effects of Protection," March, 1840, *Works of Webster*, vol. iv, p. 532.

[2] *Ibid.*, p. 534.

ster responded that protection not only would not destroy the foreign market but would actually create a steady and secure opportunity for the disposition of staples at home. Protection, then, would yield to the south two markets. The basis of his reasoning was as follows: keep American labor employed, by means of protection, and thus make possible the uninterrupted consumption of the southern and western staples by the industrial north and east. "It all comes back to the price of labor." [1] He wanted to keep away from the "experiment" of low wages of Europe and Asia and continue the "experiment of high wages" of the United States. Protection, he concluded in 1840, was the best means of perpetuating the "experiment." It was an indisputable maxim with him that "to raise wages was to increase general happiness." Webster's criterion of happiness in more than one instance appeared to be a material one.

Just one or two points in connection with the 1840 debate remain to be made. Toward its close, Webster expressed the opinion that protection did not diminish aggregate importations and that it actually operated to increase general consumption. "All our history confirms it," he said. Webster's interpretation of the history of American imports and exports may be correct. It is true that heavy importations continued to enter this country in spite of protection before 1840 and even after. Yet he seemed to ignore the fact that they were in large measure due to heavy borrowing from abroad, particularly England, to develop the new country, and were not altogether "cash" purchases paid for by exports. The final point to be discussed under the 1840 debate relates to the relationship between protection and exports. Calhoun thought that removal of duties would stimulate exports, while Webster believed that if protection were abolished foreign competition would be strong enough to

[1] *Works of Webster, op. cit.*, vol. iv, p. 534.

beat the Americans in other markets. It was his general impression that exportation did not always take place when prices were low. Rather did he think that low duties would be followed by great importations with a subsequent depression of prices in this country. This last remark was somewhat self-contradictory. In several places, he said that protection would mean low prices to the consumer and yet here he said it would be the absence of protection which might cause low prices through excessive importations. Two opposites cannot be the cause of the same thing.

In a campaign speech made in 1844, Webster attempted to clear up some of the ambiguity surrounding his 1840 utterances on protection and prices. He said that the protective system must be taken as a system or not at all and that it raises price, true, but also enhances ability to pay. "There are two things to consider—price and ability to pay."[1] And still he went on to say in the same speech that "in the long run" protection did not raise prices, because encouraged American industry could enter into competition with foreign goods. These words explained very little.

This part of the discussion of Webster's tariff views may be concluded with a statement summarizing what he considered to be the "general principles of the tariff." They were: first, a policy to multiply the variety of occupations and to get away from intense specialization; second, a policy to promote the "great interest of labor;" and third, a policy to render each variety of labor useful to all others through mutual interdependence.

3. TARIFF OF 1846

Webster made no prolonged address on the tariff question until 1846 when a bill embodying a reduction of duties and

[1] Speech made at Peperell, Mass., during campaign of 1844, *Writings and Speeches*, vol. xiii, p. 291.

the principle of *ad valorem* assessment was brought before Congress. The administration justified the measure on the theory that lower duties would mean greater importations and a larger aggregate revenue for the government. Webster's first plea was to postpone consideration of the bill because he did not think conditions warranted a radical change in financial policy. His general criticisms of the bill will be noted first before examining the major points of interest in detail. His charge that the administration based its justification of the bill on false grounds sprang from his opinion that there was a definite limit to consumer's demand. In his opinion, the Walker bill assumed that consumption could be augmented indefinitely as imports increased in volume. On the theory that demand was limited, Webster opposed any measure which would permit importations beyond the point at which they could be readily absorbed by consumers. Rarely did Webster resort to theoretical concepts to support him in his argumentation.

He went on to say that even if demand were indefinitely expansible, the United States could not pay for greater importations. The means of paying for imports he enumerated as exports, earnings of freight, and specie which was named by him "the common currency of the world." He stated that the United States could not pay for more imports by means of greater exports of manufactured ware since the Walker bill was "an axe laid at the foot of the productive tree." [1] Neither did he think that specie or the profits of navigation could pay for the importations "the love of which has become a passion." Webster had plenty of support in opposing the bill. Many merchants and most manufacturers were against the bill because of the great importations it would make possible. As a typical illustration of the feeling against it, Abbott Lawrence predicted that a general

[1] Speech on the Tariff, July, 1846, *Works of Webster*, vol. v, p. 166.

crash would ensue and "not a specie paying bank will be found in the United States." [1]

The principal points suggested by this long speech can be separately treated under four divisions, which, at the same time, may be regarded as Webster's particular reasons for opposing the bill. They are taken up for discussion in the following order: the *ad valorem* principle; the injurious effects of the bill upon the vested interests; its effects upon commerce; and its influence upon unemployment and the labor market.

Webster was always opposed to the *ad valorem* method, especially if the value rested upon foreign computation. He was not entirely unfriendly toward a policy of home valuation, for he said: "Home valuation is one thing; but a value founded on foreign cost statements is quite another thing." [2] His reasons for not favoring the *ad valorem* principle were threefold. First, as a true conservative, he did not advocate its use because every administration since Washington had adopted the contrary policy. He pointed to the nations of Europe, especially England and the Zollverein, as evidence of the unpopularity of this principle. As a second reason, Webster demonstrated that in the event of depression, prices would be low and not only would the American manufacturer be deprived of his "incidental protection" but also the United States government would suffer the loss of revenue at the time when it was most needed. Webster's strongest reason for his antagonism, at least the one he emphasized most, lay in the practice of fraudulent undervaluation designated by him as "the great fact making *ad valorem* duties unsafe as a general principle of finance." [3] To substantiate this point, Webster laid before the Senate abundant

[1] Taussig, *Tariff History of the United States* (New York, 1923), p. 140.

[2] Speech on the Tariff, July, 1846, *Works of Webster*, vol. v, p. 171.

[3] *Ibid.*, p. 175.

illustrations of frauds perpetrated against the government. Mindful of the quasi-free-trade tendencies of the Walker bill, he warned that "a system of *ad valorem* duties is not free trade but fraudulent trade." He deplored the favorable attitude displayed by Congress toward a plan which was "against the experience of mankind and the wisdom of distinguished predecessors." Sections eight and nine of the bill, designed to shield the honest and punish the fraudulent importer, bought upon them the righteous wrath of Webster. They provided that in case of wilful undervaluation, the government could confiscate and sell the goods, indemnifying with the proceeds the dishonest importer to an amount equal to the full invoice value plus five per cent interest. The exasperated Webster exclaimed that "never was there such a provision as that on the face of the earth." Owing to his bitter criticisms, these sections, so devoid of penalty, were stricken from the bill.

Many pages of the 1846 address were devoted to an attack upon the bill because it threatened, by the removal of protection, the security of special manufacturing interests alleged by him to have grown up under government encouragement. A study of these pages is interesting for both material and method. Webster showed himself here, as he had in dealing with many other economic problems, to be not only a devotee of the inductive method wherever it could be used but also a master in the handling of arrays of details and statistics. In general, his type of mind demanded facts upon which to build his conclusions. Occasionally he lapsed into the pure deductive method. The statistics used here were those of the comparative costs of manufacture at home and abroad in a long list of particular industries.

It is impossible to discuss fully the keen anaysis made of each separate industry in the light of its relationship to the protective tariff. Webster's purpose was to attempt to prove

from his data that each enterprise would be irreparably injured because the bill robbed it of its "incidental protection." A few illustrations will suffice to portray his method. In connection with the duties affecting the cordage industry of New England, he observed "the strangest anomaly ever seen in any act of legislation; that is, a tendency in this measure to tax raw materials higher than the manufactured article," with the result that "taxing raw materials and letting in manufactured goods duty free is a bounty to foreigners and a tax to Americans." [1] He found the same phenomenon to exist in the duties on copper, and on many other articles of less significance, fearing not only the consequences upon native industries but also the loss of the "normal" trade between the United States and those countries from which copper was imported. His prolonged analysis of the supposedly harmful effects of the bill upon particular industries reached its climax when he spoke of the great basic iron and coal industries of the east. He expressed alarm lest the same "strange anomaly" be responsible for the ruination of the iron industry. Webster's advocacy, in 1846, of a protective policy for the iron industry represented a complete change of position on this question.

While discussing the necessity of protective duties on coal, Webster made reference to a "general fact worthy to be recollected in all our political economy," that is, the need of stimulating by all possible means the increasing investment of capital in all great industries. The reason given for this, surprising as it may appear, was that increased capital investment tended to reduce the profits on capital and correspondingly to augment the share of labor. Webster's reasoning rested upon the assumption that greater capital investment set in motion two forces, a greater demand for labor, and the tendency for "wage rates of labor to increase as profits of capital are

[1] *Works of Webster, op. cit.*, vol. v, p. 188 *et seq.*

diminished." Apparently, he thought these to be two independent forces working to increase wage rates. Webster hailed such a system, which brought diminution of profits and greater remuneration to the workers, as a "real democracy." Therefore, he concluded that if big industries could be made still bigger by encouraging capital investment through the protective tariff, then labor would receive higher wages. It is regrettable that no explanation was offered as to the way in which the reciprocal profit and wage relationship would actually work itself out. He endowed his statement concerning the ratio of wage rates to profits, given expanding capital development, with all the majesty of a scientific law but neglected to offer facts to support it. It is unusual for Webster to do this since the majority of his opinions are supported by at least some definite evidence. He simply regarded his conclusion, so suggestive of Ricardo, as a "necessary and natural" result. Possibly he intended to imply that growing capital investments sharpened competition between owners of different capitals, tending to reduce the rate of profits and, by increasing the aggregate output in the enlarged industries, would leave a larger share for what he called "labor." Webster did not explain where the incentive for further investment of capital was to come from if the rate of profits tended to fall. Again, he may have meant that aggregate profits would be greater while the rate was falling and wages rising. But it is not certain just what he did mean. Perhaps his dislike for abstruse speculation caused him to avoid further discussion of a deductive generalization.

The alleged ill effects upon the shipping and navigating interests constituted the third major line of attack upon the Walker bill. His conclusions in this connection were based upon inductive studies, and were closely related to those made with respect to industry. In explaining the damaging effect

of the bill upon commerce, he divided the import trade of the United States into three main classes: manufactured articles, materials ready for consumption such as spirits and salt, and finally, bulky raw materials. The last group brought in the greatest revenue and was shown by Webster to be the class of goods most seriously affected by the bill which, due to the "strange anomaly," would diminish imports of bulky commodities. Furthermore, he held that the bill damaged trade by making more difficult the exchange of manufactured exports for raw material imports. With the following ironic passage, he concluded his third great argument against the bill: "This is our notion of free trade. This enlightened system cannot fail to attract the admiration of the world." [1]

In the terms of the bill, finally, Webster saw grave dangers to labor through its supposed injuries to industry. This last part is important because he pointed out that the tariff exercised varying effects upon the different types of labor in the country. He recognized for example a distinction between the plantation and agricultural labor of the south and west and the industrial labor of the north and east. He said that labor in one part was more unconnected with capital than in the other. Labor working for itself was held to be another thing from that labor which is attached to capital and is in truth part of capital, rising and falling with it.[2] He meant that the industrial worker, more dependent upon capital than the agrarian, possessed a paramount interest in protection. Desiring to see all labor protected, however, he professed that every worker regardless of section or occupation held an interest in the tariff law.

He addressed the farmers always in terms of the home market argument. He justified protection to agriculture on the grounds that it was unable to reduce its costs of pro-

[1] *Works of Webster, op. cit.*, vol. v, p. 224.

[2] *Ibid.*, p. 226.

duction and this was true, he thought, for two reasons, first, because mechanical power could not be applied as extensively as in other enterprises; and second, because it demanded much manual labor. This statement was a recognition of the principle of diminishing costs in enterprises where machinery could be greatly utilized. In order to safeguard a "fair and reasonable remuneration" to the products of agriculture, he maintained that a near market must be guaranteed and this could be accomplished by means of protection.[1] He laid stress upon the home market for another reason. The hopes of many American farmers to export great quantities of grain to the British Isles after the repeal of the Corn Laws had been dashed. The salvation of American agriculture then, according to Webster, was the creation of a home market. Although Webster himself did not believe that the Corn Law repeal would relieve the American farmer of his surplus produce, he welcomed it because it would foster the growth of a liberalizing sentiment. As an economist, he was still, in 1846, an adherent of the principle of free trade. His own words are significant: "I still agree to every word of the resolution of Faneuil Hall of 1820," a resolution which endorsed the free-trade doctrine. He further said "if this be inconsistency, I admit the inconsistency." [2] Even at this late date, Webster the economist, unshakeable from his true conviction on principles, must be distinguished from Webster the opportunist and politician. One more impressive statement remains to be mentioned in this connection: "There is a greater inconsistency than that of a man's opinion at different times; it is that between his conviction and his vote." [3]

[1] Speech at Trenton, N. J., May, 1844, *Writings and Speeches*, vol. xiii, p. 220.

[2] Speech on the Tariff, July, 1846, *Works of Webster*, vol. v, p. 241.

[3] *Ibid.*, p. 187.

The Walker bill was sent to the finance committee for consideration and came back without alteration. Webster was deeply disappointed and pronounced it to be a "bill to tax the poor man and the laborer" and one which was "not for the masses, nor for employment, but it is a bill to relieve the luxurious classes by imposing duties on the industrious classes." In making such a criticism he was doing that which he would have condemned in anyone else. On former occasions, he had not only complacently denied the existence of well-defined economic classes but had stigmatized those who preached such class distinctions as insidious propagandists. In conclusion, it may be stated that the gloomy predictions of Webster and other protectionists over the results of the 1846 bill failed to materialize. Disaster did not come either to the country at large or to the industries of New England. After 1846, textile industries flourished, affected by general trade conditions, and little influenced by lower duties.

Webster made several other public commitments on the tariff especially in his arduous campaigning for Henry Clay during the presidential contest of 1844. He supported Clay vigorously and made a number of powerful speeches, chiefly on the tariff. No discussion of them is necessary because each one followed the position assumed by Webster after 1828. He continued to be, for reasons of expediency, an apostle of high protection. His protective theory was based upon a doctrine calling for the equal dispensation of government privilege to all. He observed that in actual practice this ideal could never be completely accomplished. Protection of manufacturing was always nearest his heart in the 30's and 40's, a fact which led him to rationalize his position by thinking that if manufactures were protected and prosperous, other economic interests would be prosperous as well, owing to the harmony and interdependence between all occupations.

PART IV

Public Finance

CHAPTER I

General Principles

It is not surprising that, on account of his general skill as an economist and his particular propensity for financial problems, Webster should have applied himself so energetically to the questions of public finance. His abundant capacities as a government financier were recognized by his associates. For a long term of years, he served as chairman of the Senate Finance committee and by more than one president was seriously considered as an appointee to the Secretaryship of the Treasury. His prodigious legal and political talents, however, along with his own preference, qualified him almost perfectly for leadership in the department of state.

There is no single discussion under one title, in Websterian literature, of general principles of public finance. This is explained by his concentration upon actual fiscal issues. His faith in the validity of general principles was, indeed, considerable, his use of them consisting in their application, as in private finance, to specific problems. Although Webster's opinions on government financing were closely allied to and even a continuation of his ideas on private finance, a separate treatment of the former is justifiable. The exposition in this part is made under two main divisions: first, general fiscal notions of Webster; and, second, his opinions and criticism of particular fiscal problems.

The first division suggested above comprised three topics, public revenue, public expenditure, and public credit, each of which is to be considered in the order mentioned.

Webster place great emphasis upon the importance of steady government revenue as essential to the maintenance of a great society. Quoting, as he rarely did, from some unnamed writer, he said: "The revenue of a state is the state." [1] He severely criticized the government for its disposition to accept depreciated bank paper in payment for public dues and demanded that it reach to the true revenue well-springs of lasting vitality. Webster's criticism was actuated by the precept that a government must seek the inexhaustible sources of income. Exchequer notes, bank notes, and government paper were not, to him, representative of the type of revenue springing from such sources. Whenever the government seemed favorably disposed toward the use of irredeemable or depreciated paper, he warned it not to "act over again the farce of the assignats." [2] He failed to enumerate what the "inexhaustible sources" were but without doubt he meant the real wealth of the population and not the specious wealth of insecure bank or government paper. The revenue principle, explained in this paragraph, he adhered to consistently throughout his life.

Another principle, which underlay many of his revenue speeches, was suggestive of the faculty or ability to pay doctrine. His application of it to American taxation was best illustrated in his numerous proposals, advanced with special vigor in the late thirties, to increase the import duties upon goods consumed by the wealthy. For example, he wished to augment the duties on silk and costly wines because they were luxuries, the consumers of which were able to pay duties with considerably less sacrifice than the consumers of necessities could pay theirs. Of the silk duty,

[1] Speech against the bill to conscript males between the ages of eighteen and forty-five, December 9, 1814, *Writings and Speeches*, vol. xiv, p. 60.

[2] *Ibid.*, p. 60.

he said "nothing but good can come of it."[1] To levies on such necessities as tea, coffee, and cheaper wines, because consumed by the laboring classes, he was unalterably opposed. It is true that Webster's application of the faculty principle to indirect taxation without graduation differed widely from its present use in direct graduated levies on incomes. Nevertheless, it proved that Webster was conscious of the need for some standard by which approximate justice in taxation could be achieved. Still another maxim of taxation supported by Webster was the regularity of government income. He did not advocate the use of public land sale proceeds as one of the principal sources of revenue because they were too unsteady and unpredictable. Customs duties, to him, were the most reliable sources. Most of Webster's discussions of public revenues dealt with indirect taxation, a fact which justifies the deduction that he was opposed in general to high direct taxes during peace time, though favoring them to assist in meeting the exigencies of war.

The problem of the shifting and incidence of taxation was often mentioned but was not given a satisfactory analysis and explanation. In respect to only one kind of a tax, the customs duty, was he explicit. It was clear to him that the consumers always were the tax bearers of exactions placed upon imports. He was aware, of course, that the same thing was true with regard to excise duties. "We are all tax payers who use articles on which imports are laid," he said.[2] It may be truthfully said that Webster believed in a diffusion of the burden of taxation, as well as of its benefits, throughout the entire populace. Calhoun's invidious distinction between "taxpayers and tax consumers," with intent to dis-

[1] Speech on the Treasury Note Bill, March 30, 1840, *Works of Webster*, vol. iv, p. 554.

[2] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 491.

parage the latter, was condemned by Webster as "odious." Calhoun probably meant the inactive recipients of government income, such as pensioners, and the army and navy. Webster claimed there were no idle consumers of public revenue at all, not even pensioners who, he maintained, were paid for past service. There can be little doubt, however, that he would regard bond holders of the national debt as idle "tax consumers," though at the time he made his reply to Calhoun early in 1837 there was no public debt.

An attempt has been made thus far to bring together and to explain coherently the scattered and somewhat limited remarks of Webster concerning the principles underlying the public revenues. A similar task will now be undertaken with respect to public expenditures.

A considerable portion of the speeches dealing with the disbursement of the public funds represented Webster's criticisms of supposed shortcomings of the administration fiscal policy at different times. At one time or another, Webster charged the government with waste, inefficiency, carelessness in estimating appropriations, sectional favoritism, or parsimony. For example, during the surplus revenue period in the early thirties, he warned against waste and inefficiency; and in 1840, during Van Buren's administration, he censured the executive for its inaccuracies in computing estimates and also turned on Congress for neglecting to provide sufficient funds for Indian treaties, frontier expenses, internal improvements, and inland commerce. These invectives may be of greater use to the historian that to the economist seeking for economic principles in Webster. Toward a few of these principles relating to public expenditures, attention will now be directed.

In the first place, he submitted in one admirable speech a scientific classification of public expenditures. The criterion he used was a combination of the object of the appropriation

and the regularity with which it recurred. To him, there were three distinct classes of expenditure, first, the "standing appropriations," such as the provision for arming the militia, for pensions, and for "a few other small charges"; second, charges for which annual appropriations were required such as the army, navy, and the civil list and "a variety of miscellaneous objects"; and the third class which embodied many appropriations for special objects, public and private, as private claims, roads, canals, lighthouses, Indian treaties, and "many objects recommended by the executive." [1] Webster regarded the second class as the largest, but not the most important. No mark of superiority was assigned to any group; all were indispensable. He recognized the flexibility of the third class but disagreed with any desire on the part of the executive for that reason to exclude it from the estimates, which Van Buren attempted to do.

In the second place, Webster as early as 1825, committed himself to the principle that national, rather than local, interest should determine the direction of public expenditures. He was vigorously opposed to *pro rata* appropriations among the states and to equal rationing in different parts of the United States. He described such a policy as unjust, inexpedient, and unconstitutional. Congress, in his opinion, should appropriate for the whole and not for twenty-four parts of the nation. With great force, he attacked a proposal that the national government expend its funds for public works in different places in proportion to the amount of revenue collected in each locality. This attack appeared in a short speech on the Delaware breakwater, the erection of which was advocated by its proponents on the basis of the principle which Webster opposed and denounced as "un-

[1] Speech on the Treasury Note Bill, March 30, 1840, *Works of Webster*, vol. iv, p. 551.

sound in political economy and in politics".[1] He made it clear that just because revenue was collected in a given locality was no indication that it was paid there. The actual payment was made by the consumers no matter where they lived.

A temporary digression may be permitted in order to speak of Webster's internal improvement policy. It is appropriate to mention it in this connection because it is closely related to the second maxim of public expenditure. An admirable summary of it is found in his own words. He always professed himself to be "uniformly in favor of what is called internal improvements providing they apply to objects of sufficient importance to be properly called national."[2] Webster, by advocating internal improvements so enthusiastically, demonstrated that his *laissez-faire* faith could be laid aside whenever he thought it impracticable. He was too much of a realist to be hidebound by doctrine; he was able to see that projects of national interest must be undertaken at the expense of the federal government. The interest of the community demanded federal participation in the great enterprise of opening up the west and of building the nation. He was not at all actuated by sectional considerations in this question; he advocated expenditure only on projects which would yield benefits, even though indirectly, to the whole country. A national object, in his opinion, did not have to be of universal direct benefit to all. For example, he considered harbor improvements on Lake Erie as national objects even though they would not directly benefit, as he said, the people of New Orleans. Expenditures for such purposes as the extension of the Cumberland road, the building

[1] Speech on the Delaware breakwater, February 13, 1826, *Writings and Speeches*, vol. xiv, p. 106.

[2] Speech following the petition of the South Carolina Canal and Railroad Company to build a railroad from Charleston to Augusta, January 18, 1830, *Writings and Speeches*, vol. xiv, p. 137.

of lighthouses, and the development of inland commerce were given his complete support upon the grounds explained under the second maxim of expenditure.[1]

A third principle of public expenditure endorsed by Webster was the familiar canon "economy in government." In distinguishing between economy and parsimony, Webster pointed out that the act of curtailing appropriations for useful and necessary objects was to defeat, rather than secure, the ends of economy. True economy in government was defined, in phrases suggestive of Smith, as a careful selection of objects of expenditure, frugal application of means, and rigid enforcement of the obligations of every officer engaged in the collection and disbursement of the public funds.[2] The principles of expenditure discussed here were reemphasized by Webster during Van Buren's administration because he believed they were being disregarded entirely.

One more maxim, found in the Cumberland road speech of 1825 and not developed elaborately elsewhere, related to the quick turnover of government funds. Surplus funds lying idle in the treasury he abhorred almost as thoroughly as a permanent public debt. He preferred the smallest possible collection from the people and a quick disbursement of funds in order that money may find its way back into the hands of the people with all possible dispatch. Circulation of money from hand to hand, he observed, stimulated enterprise, a truth which he expressed negatively: "those who advance revenue to government must suffer if it does not return into their hands by sale and consumption." [3] In con-

[1] Speech on the Delaware breakwater, February 13, 1826, *op. cit.*, pp. 106-107.

[2] Speech on the Treasury Note Bill, March 30, 1840, *Works of Webster*, vol. iv, pp. 552-553.

[3] Speech on the bill to extend the Cumberland Road from Wheeling to Zanesville, Ohio, January 18, 1825, *Writings and Speeches*, vol. xiv, p. 100.

cluding these brief remarks on public expenditure, it may be said that Webster contributed a more scientific and satisfactory exposition than he did in the case of public revenues.

His policy toward the public debt and the use of treasury notes, to be considered now, was defined with consummate clearness and force. The first public expression of Webster's views on government credit appeared in October, 1814 in connection with his criticism of the administration for its conduct of the war. "The war for sailors' rights becomes a negotiation over boundaries and military roads"[1] was a typical ironical commentary. His criticism of the financial policies of government from 1811 to 1814 after the expiration of the first Bank of the United States was no less bitter. At that time, the credit of the government was low in contrast to the condition which prevailed before the war. In 1814, Webster even pronounced it to be non-existent because it was "buried under a mass of depreciated stocks, unfilled loans, discredited treasury notes, and debts unpaid."[2] The true basis of public credit, in his opinion, rested upon public confidence in three things: national resources, the stability of government, and the character and confidence of those who administer it. He refrained from explaining the precise meaning of the rather ambiguous phrase "national resources" but presumably he meant the general economic prosperity of the nation. The cause of the low state of public credit in 1814 was not ascribed to any deficiency in these national resources. Nor was it attributed to the existence of defects in the organization or structure of the government. The loss of public confidence, and therefore, the destruction of public credit he placed at the door of incompetency and mismanagement in the affairs of the state. His own words summarized admirably his posi-

[1] Speech on the conscription bill, December 9, 1814, *Writings and Speeches*, vol. xiv, p. 59.

[2] Speech on the increased direct taxes, October 24, 1814, *Writings and Speeches*, vol. xiv, p. 49.

tion: " Preservation of public credit is accomplished by general confidence in the national resources and in the stability of government and in the character of those who administer it." [1]

In the same speech, he scored the government on three fiscal points the discussion of which revealed other thoughts of interest on fiscal matters. The first was its proposal to bolster up the public credit by increasing direct taxes which he called a " burdensome system imposed on the people to replenish the treasury." The second was a severe censure of the administration for its failure to recharter the national bank. The third point was the abandonment of the use of the sinking fund, a circumstance which Webster deeply regretted. His endorsement of the sinking-fund plan as the embodiment of " the sustaining and redeeming principles of public credit " is very interesting because it showed that while he was opposed in general to a public debt, he advocated the establishment of a definite scheme of retirement as long as there had to be such a thing as public borrowing.

As has been observed, Webster, as a matter of principle did not favor a public debt. He always voted for every measure to reduce the debt on the grounds that it constituted a charge upon national industry and upon the government finances. A speech made in 1830 contained some interesting passages concerning the public debt. In that year, the debt was not large and was in process of rapid reduction so it is not surprising that Webster's prediction of its extinction was realized five years later.[2] This speech is mentioned here because it revealed a willingness on Webster's part to modify somewhat this anti-debt policy. He believed that a public debt did possess the one virtue, at least, of binding the dif-

[1] *Writings and Speeches, op. cit.*, vol. xiv, p. 50.

[2] First speech on Mr. Foote's resolution to inquire into the sales and surveys of the public lands, January 30, 1830, *Works of Webster*, vol. iii, pp. 248-270.

ferent parts of the country together and of strengthening the union indivisible and indissoluble. Despite the appeal of this argument, however, he concluded that the economic disadvantages of the public debt would outweigh any political or psychological benefits.

In an address delivered in December, 1840, Webster reasserted his faith in the principle of solvency financing and of a "pay as you go" policy for peace times although he was not unopposed to the use of borrowed funds during periods of belligerency, thinking that subsequent generations would bear part of the burden. He was not explicit as to the relative proportions of war-time funds to be raised by taxation or by borrowing, but it is clear from his criticism of the financial policy of the War of 1812 that he did not favor heavy borrowing without an appreciable increase in taxation.

The occasion for this speech of 1840 was created by Van Buren's message to Congress which brought forth three proposals to relieve the country's disordered finances: first, to postpone payment of the fourth installment of surplus revenue to the states; second, to establish a system of government custody of its own funds, the plan which later became the Independent Treasury; and third, to issue more treasury notes, since appropriations were running ahead of revenue by approximately eight million dollars. At present, the third proposal only will be considered because it was related to Webster's views on public credit. The substance of Webster's response to the message was that the treasury-note issue would reinstate the principle of the permanent debt. Although the President had committed himself unequivocally on the treasury-note policy, he personally leaned somewhat toward Webster's opinion. He justified his actions on the grounds of expediency and admitted that he was influenced by the fact that a large number of people favored the establishment of a debt as a desirable thing *per se*. Webster, on

the other hand, doubted not only the existence of a pro-debt group but also the wisdom of the restoration of the permanent debt.[1] He considered the treasury-note bill of 1837 as a virtual restoration of the debt principle. Van Buren attempted to argue that treasury notes would not constitute a debt whereas Webster claimed that the issue of renewable treasury notes was just as much a creation of debt as issuing government stock which was later redeemable and that of the two the former was much the more expensive mode of contracting a debt.[2] By means of a convincing array of figures, Webster showed the rapid growth of the public debt under the treasury-note policy of the Van Buren administration down to 1840 when there were about twenty-three million dollars worth outstanding. While he restated his approval of incurring debts to finance war, he deplored the fact that Van Buren's administration was "the first to propose a national debt in times of profound peace."[3]

Perhaps, it will be of interest to supplement the foregoing general analysis of the public debt from Webster's point of view with a few remarks of a more specific character. The treasury-note bill of 1840 authorizing the treasury to borrow five million dollars for two years at six percent was opposed by Webster, though, strange as it may seem, he said he did so reluctantly because of the traditional sanction given "long ago and under better auspices" to the occasional issue of treasury notes.[4] Since 1837, the administration tried to distinguish between the issue of notes and the creation of a debt, thus putting itself in an embarrassingly inconsistent position. Frequently, Webster indicated that the issue of

[1] Speech on the conditions of government finance, December 16 and 17, 1840, *Works of Webster*, vol. v, pp. 40-42.

[2] *Ibid.*, pp. 43-50.

[3] *Ibid.*, p. 42.

[4] Speech on the Treasury Note Bill, March 30, 1840, *Works of Webster*, vol. iv, p. 546.

notes was like the sale of government stock in that both were debt creating. Webster's view was substantiated by the fact that one purpose of the 1840 bill was to enable the Treasury to pay off some of the earlier notes.

The specific Websterian arguments against treasury notes may be enumerated. First, he regarded them as the least economical and the most inconvenient form of debt due to their high rate of interest and their early maturity. The interest charge he considered to be much higher than was necessary to float a loan "in the common manner." He preferred a longer time obligation and a lower rate of interest but rather than borrow in any form, he would enforce the fiscal canon "to keep out of debt by bringing revenue up to expenditure or bringing expenditure down to revenue." [1] Second, he feared that the treasury notes of 1840 would absorb a considerable share of the country's capital needed for the relief of trade and for the revival of business. He thought they made money scarcer than ever, since the government would enter the money market as a borrower competing with private demand for capital. Third, he alleged, the notes might be used in a way contrary to the Constitution, that is, with a nominal interest rate or none at all, in order to force them into circulation as money, actions which would "establish a government paper money system." Finally, he held that banks would profit from them by the government paying interest to the banks rather than the banks paying interest on their deposits. Most of these objections were applied to the particular issues of 1840 and their high rate of interest but Webster's reasoning which underlay his objections was sufficiently general to apply to all treasury-note issues. As a matter of principle Webster remained an enemy of treasury notes, regardless of the interest rate, throughout his entire public career.

[1] *Works of Webster, op. cit.*, vol. iv, pp. 547-8.

CHAPTER II

Opinions on Particular Problems

I. PUBLIC DOMAIN

Having discussed certain general principles which guided Webster's conduct with respect to public revenue, expenditure, and credit and their problems, a brief survey of his opinions upon a few significant public issues may further demonstrate his contributions to American economic thought and development. One of the great questions which engaged his attention was the disposition of the public domain. He always considered the western lands as a common fund belonging to the whole people and not to the residents of the separate states and, partly for this reason and partly because he believed Congress was assigned by the Constitution to the duty of trusteeship of the domain, resisted every attempt to cede the land to the states. On this issue, he was at odds with Calhoun who tried to induce Congress to transfer title to the domain to various states in the south and west.

Early in his public career, he assumed a definite position upon the problem of retention versus alienation of the domain. In 1825, he committed himself unequivocally in favor of disposition, considering it an unwise policy to hoard it as a treasure for the purpose of meeting the needs of the exchequer. However, he was a moderate alienationist, favoring a policy of accelerating the sale of lands to dissatisfied industrial workers of the east and to pioneers generally by the stimulus of low prices, but not so low as to tempt speculators into the market. His point of view was both fiscal and social,

but principally the latter. The object of the government, acting in the capacity of trustee, was, according to him, to get the lands settled rather than to fill up the treasury. The revenue he preferred to consider as incidental. That he did not ignore, of course, their fiscal importance was shown in a number of speeches. On one occasion, he intimated that the domain was a trust fund by which public debts could be retired, and at the same time expressed considerable pleasure that the government had received about twenty million dollars from the sale of western lands up to 1825.[1] Nevertheless, the national domain was never regarded as a dependable source of government income because of its unsteady and indeterminate character, a feature ascribed by Webster more to the scarcity or abundance of capital than to actual emigration itself. Nor were the public lands considered to be an adequate and convenient security for government loans.

As to the method of disposition of the domain, Webster entertained some very definite ideas, particularly in regard to the pre-emption plan. At first, he was moderately opposed to pre-emption, preferring a policy of donations wisely administered, after having satisfied himself that Congress had the constitutional power to make them. The main reason offered for his early opposition to pre-emption was its "tendency to demoralize a state" while "donations are more reasonable and produce moral habits and good order in society which pre-emption does not."[2] At a later time, after he had swung over to support the latter, he commented on its shortcomings and again showed that fundamentally he still favored donations. Of these, he said "they would have been far

[1] First speech on Mr. Foote's resolution to inquire into the sales and surveys of the public lands, January 30, 1830, *Works of Webster*, vol. iii, p. 248 *et seq.*

[2] Remarks on the bill for the cession of public lands, *Writings and Speeches*, vol. xiv, p. 249.

better and freer from abuse than any system of pre-emption ".[1]

Not long after he expressed his early disapproval of pre-emption, his attitude appeared to undergo a change. In January, 1838, he offered his support to the pre-emption plan which was then before Congress but seemed reluctant to commit himself wholeheartedly to it. His conservatism was, in part, the reason. He expressed his indisposition toward " all new schemes and projects " and his opposition to any measure " which may prejudice the public interest." [2] As usual Webster moved very cautiously and changed his opinion of pre-emption only because things had reached such a state in the west that something had to be done. His visit to the west in 1837 had convinced him that frontier conditions required immediate relief. He saw in Indiana, Illinois, and the region west of the Mississippi thousands of settlers who had established residences on unsurveyed lands and whose titles were unconfirmed. This migration beyond the surveyed land was stimulated by the heavy purchases of surveyed lands made in 1835, 1836, and 1837 by companies and proprietors for investment rather than settlement. Moved by such circumstances, he supported a bill, in opposition to Clay, which granted title to every real settler who was in possession on December 1, 1837. As in the case of the tariff, expediency explained his change of view. " I place my support of this bill upon the indispensable necessity of doing something." [3]

The bill was not at all a radical change, else Webster's support would never have been given to it. It was definitely

[1] Remarks on the bill to graduate the prices of the public lands, January 14, 1839, *Works of Webster*, vol. iv, p. 525.

[2] Speech on the Pre-emption Bill, January 29, 1838, *Works of Webster*, vol. iv, p. 392.

[3] *Ibid.*, p. 397.

circumscribed, applying only to those already settled, making no donations, and granting only a right to purchase at $1.25 per acre to the extent of a quarter section. Webster opposed an amendment to limit the benefits of the bill to native or naturalized citizens of the United States because such a policy, he said, would break the traditional practice and would be "invidious and unjust." [1] This represented one of the few allusions to immigration ever made by him. A preference for the sturdy agricultural immigrant, particularly from the north and west parts of Europe can be inferred from his remarks. He seemed to treat the immigration aspect of the public land question less on economic than on moral and ethical grounds, desiring, as he stated, to put the foreigner and the native on an equal basis. The following year, 1839, he delivered an address on behalf of a bill to graduate the price of public lands. His main purpose in doing so was to enable the government to dispose rapidly of the poorer grades of land, which he thought would result in an enhancement in its value under private control. This particular view of Webster was part of his general opposition to any form of permanent holdings by the government, even of those reservations containing valuable mineral sites which could bring in royalities to the state.

Webster saw one other course only if pre-emption was rejected, as long as a policy of donations was unacceptable, and that was public auction of the unsurveyed lands over the heads of the settlers who had resided upon and improved the lands. Such an expedient was abhorrent to him not only because it offended his sense of justice but also because he held it would not bring into the Treasury one dollar more than the price set by the pre-emption bill mentioned above. Clay, on the other hand, advocated auction free and open to

[1] *Works of Webster, op. cit.*, vol. iv, p. 394.

all without special privilege. A very interesting debate took place between Webster and Clay over the issue of auction versus the pre-emption policy but very little of scientific value was yielded by it.

Webster's policy of alienation possessed the virtues of moderation and wisdom. His change of opinion regarding pre-emption should not be condemned as inconsistency because the conditions in the west which prompted this change were lacking in the earlier years when he opposed it. As in the case of the tariff, his actions were guided by expediency and not principle. As a matter of principle, he always favored a policy of donations over pre-emption. His apparent and occasional compromises with principle were the actions of a pragmatist who was motivated in his thought and conduct by facts and realities and not by doctrines.

2. SURPLUS REVENUE

During the thirties, much of Webster's attention was attracted toward financial questions, public and private. The currency disorders, the banking situation, the financial distress after 1837, the removal of the government deposits were among the problems which weighed heavily upon him. No less important to him than these was the question of the accumulating treasury surplus which was, in part, caused by Jackson's pocket veto of Clay's Land Bill of 1833 designed to distribute to the states the proceeds accruing from western land sales. Webster objected to a superabundant treasury because the public money, placed on deposit in selected state banks, would have the effect of stimulating inflation of the currencies and a spirit of wild speculation. Funds borrowed from the deposit banks were actually being used to finance speculation in western lands and found their way back to the treasury in payment for the lands. Then, they would again be transferred to the selected deposit banks and used once

more following the course of a vicious circle. The surplus revenue, which was approximately forty million dollars at the end of 1836, in the hands of a few banks was of no real advantage to regular business enterprisers. They were unable to receive the accomodation accorded the speculators. With knowledge, then, of the facts recounted here as the economic background of Webster's action, it is easy to understand his enthusiastic support of the distribution proposal when it was revived in December 1833 and again in December, 1835.

On May 31, 1836, Webster delivered a speech on a bill providing for the distribution in four installments of the funds existing in the treasury in excess of five million dollars from whatever source derived. He was careful to state his opposition to the distribution of revenue among the states as a settled practice but as an emergency measure he found no reason for opposing it. Even a policy of division of the proceeds of public land sales among the states for some years, based on the theory that the public domain was a fund belonging to all the people, was acceptable to him. He was skeptical, however, about the practicability of segregating the revenue from lands in the treasury from other sources of income, an opinion which actuated him to propose a reduction in import duties. He said concerning this point: "If we cannot separate proceeds of land from other revenue, if all goes to the Treasury together, I have no hesitation in declaring that the income from customs must be reduced, even at the hazard of injuring some branches of manufacturing."[1] The purpose of his proposed reduction, of course, was to eliminate the treasury surplus. The injuries to industry he thought less an evil than a perpetual surplus with a consequent distribution among the states, as a regular occurrence.

[1] Speech following the introduction of a proposition to distribute the surplus revenue, May 31, 1836, *Works of Webster*, vol. iv, p. 257.

Webster accounted for the surplus revenues in two ways: proceeds from the public lands and income from the customs duties. He attributed the flourishing state of the customs revenues to the heavy exports, principally of cotton, which enabled Americans to import in appreciable quantities. There was some dispute between Calhoun and Webster as to which tariff law was responsible for the swollen state of the Treasury. Calhoun thought the "abominations tariff" of 1828 was to blame; Webster, the laws of 1832 and 1833, because of the abandonment in 1832 of the minimum principle which he favored as the most scientific mode of laying specific duties. Webster believed the minimum principle to be "exactly conformable to the soundest and most accurate principles of political economy."[1] Webster evidently was not aware of the fact that the minimum system, as arranged in the act of 1828, did not work well, since it led to evasion, undervaluation, and disputes at the customs house.[2] Webster went on to praise the specific duty as "intelligent and discriminating," condemning the *ad valorem* duty as "blind and uncalculating." Because he thought the *ad valorem* duty assessed more than was necessary, Webster believed that many millions of dollars were taken into the Treasury by such a system which not only contributed to the surplus but also conferred no perceptible protective benefit. "I regard the law of 1832, not the law of 1828, as the great error in our legislation," he said; and to such an "error" he ascribed much of the embarrassing surplus revenue.

The other cause of the surplus was the income from the public domain. Deeply impressed by the suddenness in its augmentation, he attempted to explain it in terms of the following circumstances: first, the general prosperity of the

[1] *Works of Webster, op. cit.*, vol. iv, p. 258.

[2] Taussig, *Tariff History of the United States* (New York, 1923), p. 106 *et seq.*

thirties and the westward movement as one of its effects; second, the great demand for cotton lands; third, expansion of the currency; fourth, the investment of foreign capital; fifth, and most important, the low price of land which he pointed out remained the same though other prices might rise. Nor did he neglect to mention internal improvements as a cause in bringing "the Atlantic to the west and the west to the Atlantic."[1]

It is interesting to observe that Webster's viewpoint in supporting the bill of 1836 to distribute the revenues was that of a scientist conducting an experiment. He wished to relieve the treasury and then contemplate the results, watching closely into what channels the funds taken from the deposit banks flowed. He was confident that the bill would offer relief to business enterprise, as no doubt it did. Webster, himself, it appears, was not averse to social experimentation despite his caustic criticisms of Jackson's financial "experiments." In other speeches delivered in 1836, Webster proposed with little success other reforms to supplement the distribution plan, such as, a law to compel the deposit bank to pay interest and to keep a minimum of specie reserve against liabilities, a law to increase the number of deposit banks and to prevent the Secretary of the Treasury from changing the banks or the funds from one place to another.

3. SPECIE CIRCULAR

Another of the many subjects concerning finance which challenged the attention of the public in the thirties was the Specie Circular question. On July 11, 1836, the executive without authority from Congress promulgated the famous order directing that after August 15 only gold and silver

[1] Speech following the introduction of a proposition to distribute the surplus revenue, May 31, 1836, *op. cit.*, p. 262.

should be receivable for public land payments. The alleged purpose of this decree was to check speculation in western lands and the excessive issues of state bills of credit, as well as to accelerate the circulation of specie as currency. The measure was a signal failure. One of its immediate effects was to sweep the country's specie toward the deposit banks while the specie of non-deposit banks was drained. Again, a wasteful and costly flow of metal back and forth from west to east and east to west was set in motion. The non-deposit banks were forced to curtail their loans and in some regions, particularly in the west where specie was scarce, a shortage of money arose. The internal exchanges were deranged and a general suspension seemed imminent. In the face of such circumstances, many members of Congress perceived the timely need for action and among this group was Daniel Webster.

A resolution brought into the Senate to revoke the Specie Circular was opposed by the colorful Benton of Missouri and supported by Webster. The latter delivered a forceful speech on December 21, embodying three points: an attack upon the Specie Circular and Benton's "impracticable and ultra" notions of finance; his theory of government control of the currency; and an exposition of the process by which deranged domestic exchanges were related to depreciated currency. The last two points have been discussed in connection with Webster's views on the currency. With respect to the first, he said: "It is ridiculous to say we live under a government of laws if an executive can say in what medium a man may pay his debts to government." [1] He thought jurisdiction over this question lay in the hands of Congress and that the executive had exceeded its constitutional powers. The result of Webster's attack upon the Specie Circular, un-

[1] Speech on the Specie Circular, December 21, 1836, *Works of Webster*, vol. iv, p. 273.

dertaken partly on economic and partly on political and constitutional grounds, was to arouse Congress to a lively opposition to it which culminated in the passage of a bill to annul it.

4. INDEPENDENT TREASURY

In the special session of Congress of September, 1837, Van Buren proposed, among other things for the relief of the country's disordered finances, the establishment of a system of government custody of its own funds. The President was not satisfied with his predecessor's "experiment" of employing local banks as fiscal agents, pronouncing such a plan to be a provision for an emergency which no longer existed. Three times a bill embodying the principle that the government should care for its own funds failed to pass Congress. The election of 1838, however, resulted in a majority favoring the Independent Treasury and the bill became law on July 4, 1840.[1] Webster contributed three excellent speeches to the prolonged debates over this subject, one delivered on September 28, 1837 and the others on January 31 and March 12, 1838.

Webster treated the Sub-Treasury question from two points of view, the political and the economic. With respect to the first, he opposed the plan because he believed its establishment would be accompanied by a denial of the power and duty of the national government to control the paper currency. As one of his economic objections to the scheme, he advanced the proposition that it would mean the introduction of an exclusive metallic currency for the government, that is, as he expressed it, "gold for the government, paper for the people."[2]

[1] Dewey, *Financial History of the United States* (New York, 1922), p. 236.

[2] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 450.

He did not favor such "separation of government and people" because it was "selfish and unnatural" on the part of the government.[1] His bitter irony could not be restrained, as the following remark displays: "Is it America, my country and your country, in which, at a time of great public distress when all eyes are turned to Congress for relief, Congress has nothing to propose but bolts and bars, safes and vaults, cells and hiding places for the better security of its money and not even a kind word for the people themselves?"[2] He thought the Independent Treasury plan would carry the people back into the dark ages and from an "intellectual age to a physical age" where credit and confidence were unknown. Again, he disapproved the proposal because it would mean a complete divorce of government and the banks compelling the former to forego the benefits of using banks as fiscal agents. In a very clever way, Webster showed that every dollar of public money would have to be counted five times between the interval of arrival and departure from the Treasury. Such a circumstance evoked one of his most celebrated remarks: "what a money jingling generation we should be! All the money changers of Solomon's temple will be nothing to us."[3]

Webster would prefer anything to the Sub-Treasury system, even the use of state banks as fiscal agents, but, of course, his principal aim was to convince Congress of the necessity of the restoration of the national bank Another strong reason he held for opposing the plan ought to be given, that is, the hoarding of the funds from general use which he said belonged to "barbarism." Money should

[1] First speech on the Sub-Treasury, January 31, 1838, *Works of Webster*, vol. iv, p. 409.

[2] *Ibid.*, p. 409.

[3] Second speech on the Sub-Treasury, March 12, 1838, *Works of Webster*, vol. iv, p. 455.

circulate and not be hoarded, he always maintained. Hoarding would withdraw active capital from the uses of the nation and the specie kept in the Treasury would be rendered "as useless as if it were carried back to the native mines." [1] Finally, he believed that the system would weaken the banks by draining their metal reserve used to sustain their paper, and that it would withdraw specie from circulation, to both of which circumstances he was unalterably opposed.

It has been said that Webster's opposition to the Independent Treasury was one of the chief errors of his public career. Such an opinion is hardly just to Webster since it appears to be based upon a failure to understand his views on the duties and powers of the national government in regard to the currency and on his general doctrines of money, credit, and currency. Furthermore, such an opinion of Webster's conduct probably assumes the unqualified success of the Sub-Treasury system.

[1] *Works of Webster, op. cit.*, vol. iv, p. 456.

CONCLUSION

Before turning to the general summary of Webster's economic ideas it may be of some value to comment briefly on three topics, partly political and partly economic in nature, concerning which Webster expressed some opinion. They are mentioned in the conclusion because they stand somewhat apart from the material discussed in each of the four preceeding parts. One of these subjects related to the commercial policy of government upon which Webster discoursed at great length at different times. Only a brief summary of his position is given here. He believed the state should negotiate trade treaties containing precise stipulations in order to eliminate the policy of retaliation between nations. In 1843, he explained that equitable reciprocity of trade is essential to general prosperity.[1] He did not look with favor upon most of the "supposed reciprocity treaties," as he called them, partly because they included the " most favored nations " clause and partly because he did not think they did justice to American shipping. He condemned the commercial treaty of 1830 with Great Britain and the treaty of 1827 with the free Hanseatic republics on these grounds. He opposed the " most favored nation " principle because he thought it to be a meaningless generalization and, according to him, generalizations in commercial treaties lead to quarrels and confusion.[2] The " true principle " of commercial policy, he asserted, was as old as Cromwell and decreed that while

[1] Speech at Baltimore before the Baltimore merchants on behalf of American shipping, May 18, 1843, *Writings and Speeches*, vol. xiii, p. 153 *et seq.*

[2] *Ibid.*, p. 163.

ships of one nation could bring goods to America and carry back American goods to her own ports, no nation ought to bring the products of a third country or carry between America and that country. Webster's policy was admittedly narrow, nationalistic, and out of harmony with his anti-mercantilistic views expressed in 1824. He, himself, confessed this to be a "selfish policy but not an extraordinary selfishness." He directed his remarks chiefly against England whose growing merchant marine, he feared, would eventually monopolize the world's carrying trade. Each nation, in his opinion, should possess the right to carry its own goods.

Another interesting point bearing upon both economic and national policy was his anti-imperialism with respect to expanding territory. He believed that "no nation ever had less to expect from forcible aggrandizement" than the United States.[1] He wanted growth but not external acquisition. The annexation of Texas he declared to be not only "a violation of the Constitution" but also "a blow at free institutions,"[2] fearing that such an act would stimulate the growth of slavery. He opposed all imperialist actions because he wanted America to serve as an example to the world in order to prove that one rich and powerful nation was not possessed with the spirit of aggrandizement. In criticizing the Mexican war, which was, to him, "odious to a high degree," he said that he was against all accessions of territory to form new states.[3] He spoke caustically of "manifest destiny" and repudiated the right of the United States to intervene forci-

[1] Speech on the Greek Revolution, January 19, 1824, *Works of Webster*, vol. iii, p. 64.

[2] Speech at a Whig rally in Faneuil Hall, Boston, November 6, 1846, *Writings and Speeches*, vol. xiii, p. 339.

[3] Speech on the Mexican War, March 1, 1847, *Works of Webster*, vol. v, p. 259 *et seq.*

bly in the affairs of other nations. Again, he deplored the aggressive tactics of the Polk administration over the Oregon question, fearing that it would provoke war.[1] As regards Louisiana and Florida, he remained discreetly silent.

The third topic dealt with a principle which Webster did not express until the last year of his life. At the Kossuth banquet on January 7, 1852 he said: "We welcome him to the shores of this free land, this asylum of oppressed humanity".[2] The view that America was a haven for oppressed peoples he doubtless entertained throughout most of his public career and it must have deeply influenced his immigration policy. Webster said so little about immigration that even this brief remark, evoked by his devotion to a great political ideal, can be considered to be significant.

Having referred briefly to these three points relating to Webster's national policy, the remaining pages can be devoted to a general recapitulation and final evaluation of Webster's works from the economic point of view.

Webster's economic ideas for the most part were those of a conservative. Much of his life was dedicated to actions designed to preserve American institutions against innovation. He sought to achieve equilibrium and balance and to enforce the *status quo* principle in economic and political life. Many illustrations of Webster's economic fundamentalism could be drawn from his views on trade, credit, banking, labor, and public finance. Only one, however, is essental at this point. While he had opposed protection in 1824 in part because it represented a change, he was equally vehement in 1844 against the dangers of the "free trade revolution" against protection which by that time had become a well established institution.

[1] Speech at Faneuil Hall, Boston on the Oregon question, November 7, 1845, *Writings and Speeches*, vol. xiii, pp. 310-324.

[2] Speech at the Kossuth banquet, January 7, 1852, *Writings and Speeches*, vol. xiii, p. 452.

Webster's economic thought, particularly in reference to the fundamental concepts discussed in Part I, was deeply influenced by the English classical writers, despite his protestations of disrespect for their economic dogma. His naturalism and optimism, the doctrine of harmony between individual and society, his *laissez faire* theory, and his faith in the beneficence of the competitive society reveal the unmistakable influence of Adam Smith. Like this great master, furthermore, he concentrated his attention upon the economics of production and exchange and neglected to explain carefully matters pertaining to distribution and consumption. His frequent references to labor as the producing cause of all wealth and the analysis of fundamental principles governing international trade and specie movements were highly suggestive of Ricardian economics. Again, Webster was guided in the determination of many of his public policies by the Utilitarian philosophy. More than once he urged upon his hearers the principle that "all measures of government ought to be adapted to the greatest good of the greatest number." [1] However, Webster did not impose restraints upon his own actions because of blind allegiance to doctrine. Whenever expediency suggested to him that a compromise with, though not an abandonment of, principle was necessary for the public interest, he did not hesitate to make it, a circumstance which proved to be true with respect to some of his most cherished opinions, such as *laissez faire,* competition, free trade, and public land policy.

There appears to be ample justification, from the viewpoint of a twentieth-century observer, to criticize Webster for his unreserved confidence and naive faith in the unmixed benefits of the institution of private property. It is true

[1] Letter to James Brook, August 5, 1834, reprinted in *Writings and Speeches*, vol. xvi, p. 241.

that he was optimistic to the point of excess and neglected to analyse the economic evils which accompany the fruits of private property. Yet Webster, in making private property and the self-interest incentive the foundation of his program of economic thought and action, did so at a time when enlightened individualism was the prevailing economic philosophy in the western world, a philosophy which was especially applicable to a young country with abundant resources awaiting development. Webster's great emphasis upon private property must be interpreted in accordance with economic conditions and ideas of his own era. That he was anxious to reduce the quantity of property in public hands is shown by his public domain policy and his argument in the Dartmouth College Case. In that celebrated case, he defended the principle that property may be privately owned and at the same time yield benefits to the public and he believed that an economic system ought to be based upon such a principle.[1]

The ideal end, according to Webster, of an economic society organized upon the basis of individualism and private property was the creation of a nation of happy moral individuals every one of whom were possessors of property. Such a consummation, he thought, could be attained partly by means of stimulating and expanding the spirit of capitalist enterprise. Business enterprise in all its manifestations he regarded as the medium through which property, prosperity, and happiness were dispensed to all. His exaltation of business enterprise as a noble means to a glorious end forms an integral part of his economic thought. Webster must not be condemned as a crass materialist because of his laudation of property, capitalist enterprise, and prosperity. Such things to him were moral values, and besides he sincerely hoped that

[1] Argument in the Dartmouth College case, March 10, 1818, *Works of Webster*, vol. v, p. 465 *et seq.*

a prosperous people would cause literature and the arts to flourish. He once said: "The cause of science and literature imposese upon us a delicate and important trust." [1]

Webster's comparative study and evaluation of the different forms of business enterprise, contained in Part II, is interesting because it brought out very clearly his reasons for opposing, at first, an industrialism, "pushed to excess". After the tariff of 1824, this opposition was changed to enthusiastic support of a protected and expanding industrial regime. To all appearances, Webster was guilty of a glaring inconsistency, the general nature of which has already been explained in Part III in connection with the tariff of 1828. Despite his subsequent defense of the machine industry, however, it is reasonable to assume that he was as fully aware of the defects of industrial capitalism as he was when he made his appraisals of it in 1820 and before. His actions in this apparent inconsistency resolve themselves into a matter of expediency and of emphasising at one time the more dismal aspects of industrialism and at a later time its admitted benefits. His different points of view were in part influenced by political as well as economic circumstances. Webster's particular observations on the merits of the machine technique have already been appraised in Part II. A few more words may be devoted to his idea of an equitable division of property as one general consequence of the machine technique. Since Webster himself said that the problem of distribution was "quite as important" as the accumulation of a large aggregate of wealth, it is surprising that he did not make a thorough study of the processes of distribution and present a scientific explanation of them. Such a study would have been in line with his taste for particular investigations. The absence of a well prepared and scientific exposition of distri-

[1] Plymouth oration on the first settlement of New England, December 22, 1820, *Works of Webster*, vol. i, p. 48.

bution constitutes a grave weakness in his economic thought. He ascribed the alleged "general equality" of wealth in the United States to such vague factors as "the spirit of our laws and institutions," ease of transferability of property, and the benevolent operation of individualism, competition, and business enterprise.

Webster's broad explanation of the production of wealth in terms of labor and the "application of science to art" departed from orthodoxy only by the meaning which Webster attached to the word "labor" as an embodiment of any kind of power, human, animal, or mechanical. Among his factors of production, he included labor, resources, science, and credit which he usually identified with capital. As further productive forces, he defended the corporate principle and the concentration of industrial capital although he did not endorse concentration of ownership. He was unquestionably sincere in his desire for a fairly even distribution of ownership of industrial wealth. Many of his references to labor were mere rhetorical flourishes but fundamentally his solicitude for the welfare of the working classes was genuine despite his denunciation of the collective bargaining principle. His generalizations regarding population, wages, unemployment, and radicalism were excellent as far as they went; but they lacked thoroughness and adequate statistical support, and therefore were not of great scientific value. Finally, with respect to the material in Part II, it may be said that Webster's many remarks about capital were both interesting and valuable for three reasons: first, his disposition to define capital nearly always in pecuniary terms; second, his distinction between active and passive capital and capitalists; and third, his exposition of the close relationship between active and passive capital on the one hand, and the public debt, on the other.

Webster's skill as an economist was demonstrated more

than in any other way by his treatment of particular problems of exchange involving credit, currency, banking, trade, and tariff, all of which have been expounded in Part III. Although Webster's thoughts on these questions do not reveal the operation of a profoundly original mind, they, at least, were developed from his own keen observations of economic tendencies in the United States and represented an effective application of the knowledge of economics which the European scholars and the "practical statesmen," as he called them, had helped him to accumulate. Furthermore, Webster drew from his rich fund of historical knowledge and used it with telling effect in discussing these problems. Economic thought in the United States could not help being stimulated by the wide reading of Webster's great speeches on these pressing questions.

A few remarks, by way of summary, of the ideas in each section of Part III may be made. Webster's discussions of money, credit, and currency were very thorough. The advantages of a money economy, the qualities and functions of money, the use of metals which alone he considered as money in the "scientific" sense, the operation of fundamental laws of money, he clearly understood and forcibly expounded. His ability to apply his principles has already been abundantly illustrated. Doubtless, he was excessively optimistic regarding the benefits of the credit system, a spirit which culminated in a brilliant idealization of its operations. He even pronounced credit to be the great "civilizing agency" which has "reduced a wilderness" in the United States.[1] Confidence and credit, in a broad sense, lay at the basis of both economic and political systems, in his opinion. He once said: "The government itself began on credit; its first breath was credit."[2] Webster interpreted bank credit to be a social

[1] Speech at Rochester, N. Y. on the currency disorders, July 20, 1837, *Writings and Speeches*, vol. xiii, p. 97.

[2] *Ibid.*, p. 97.

institution serving in three capacities, as a medium of exchange, as a productive force by stimulating enterprise, and as an agency operating to diffuse wealth widely and spread general prosperity. His analysis of credit exhibits his tendency to combine and harmonize individual and social points of view. While Webster may have been guilty of undue exaltation of the institution of credit, he was not unaware of the dangers attendant upon its abuse, the most serious consequence of which, in his opinion, was inflation and depreciation. These occurrences, as he so admirably explained, would be responsible for such economic phenomena as speculation, redistribution of wealth, insecurity to property, suspension of specie, rising prices, embarrassment in the government finances, and "overtrading." His treatment of particular problems of finance such as the consequences of depreciation, the arguments on behalf of a mixed currency, the social and welfare functions of redeemable paper currency, in fact, all of his investigations, while not always exhaustive or free from errors and ambiguities, will stand as enduring evidence to Webster's fame as an economist. It has been explained that Webster advocated some measure of social control over the currency. He was not even sure that convertible paper would be free from depreciation. He hoped to establish this control partly through the medium of a national bank to help check the local issues and partly by means of the enforcement of laws compelling banks to maintain adequate specie reserves against liabilities. This point leads logically into a brief review of Webster's views on the bank question.

As explained in the introduction, Webster's opinions on banking have been expounded chronologically and with reference to the great issue which engaged so much of his attention, the Bank of the United States. His position on this question revealed him to be an economist of conservative

tendencies advocating an institution of conservative capitalization and one which maintains at best a loose affiliation with the government, submitting only to the type of social control spoken of in the previous paragraph. He did not favor a bank founded on government stocks because he was opposed in principle to a public debt, nor did he think the government should have power either to force loans from the bank or to suspend specie payments. The purpose of a bank, in his opinion, was social in that it should furnish the community with a sound and stable paper medium of exchange, thus securing property rights, and with abundant " capital," that is, credit. Regarding the bank as a social institution, he expounded its functions in terms of its services to society, to the state, and to the general business community. Webster did not neglect to include the state banks in his expositions. His analysis of the relationship between national and local banks, with respect to the issue function, is especially illuminating.

Webster's tendency to overvalue a given economic institution and pay too little heed to its shortcomings was again illustrated by his attitude toward the bank. The value of the United States Bank to the community was admittedly great but Webster's dire predictions of sweeping economic distress and of the collapse of the economic system in the event of its extermination were scarcely justifiable. Like the lugubrious prophesies made at the time the Walker tariff bill became law, they did not materialize. His prolonged discourses on banking are valuable not only historically but also because they expound principles of economics which he with justice designated as " universal " and which are as vital and true today as they were at his own time. His special aptitudes in regard to problems of banking, private and public finance were responsible for the great discourses created in the thirties, each one of which should be considered as a con-

tribution to economic thought and literature in the United States.

The exposition of international trade theory discussed in Chapter III of Part II represents one of Webster's most valuable contributions to economic thought. His remarks embodied an admirable analysis of the "true nature of commerce" displaying the highly enlightened and liberal character of his thinking on this subject. Furthermore, he exposed the fallacies of the Mercantilist claims regarding specie movements. Specie, to him, was at the same time a sort of international currency used to adjust trade balances between nations, and a commodity subject to the same forces as any other article. His discussion of specie ebb and flow was not free from ambiguities, nor was it complete and well rounded out, but it exhibited his awareness of fundamental forces operating in international economy. He was very explicit about the claim, which he held to be a fallacy, that accumulation of specie occasioned general prosperity. Finally Webster's trade theory contained a refutation of the balance-of-trade doctrine and his support of free trade and liberal commercial legislation. His discussion of foreign exchange related more to rates than to principles and included a summary of the services rendered by bills of exchange. Particularly interesting was his distinction, made in 1824, between nominal and real rates in regard to sterling exchange. His exposition of the "true nature of exchange" was as praiseworthy, though not so broad or significant, as his explanation of the "true nature of commerce".

As in the case of banking, Webster's views on the tariff have been treated historically beginning with his free trade opinions of 1814 and extending to his last great address on the tariff in 1846. This method brings out more clearly the evolutionary and changing character of Webster's thoughts on free trade and protection under different economic and

political circumstances. The great tariff speeches of 1820, 1824, 1828, 1840 and the debate with Calhoun in 1840 constitute an exceedingly valuable contribution to economic thought not only because they clearly define the tariff issue as it was confronted by the American people throughout the first half of the nineteenth century but also because they contain a great deal of thought on miscellaneous economic topics. These celebrated discourses proved that Webster could resort to theoretical speculation and the deductive method in spite of his professed distaste for both and his preference for the inductive, comparative, and historical methods. His use of the deductive method is found in the following cases, to mention only a few instances: first, his discussion in the 1824 speech of the incidence of import duties, of the relationship between protection and economic distress, and of the effects of protection upon labor; second, his analyses in the debate with Calhoun of the supposed effects of protection upon the general price level and of the effects of international competition upon particular prices; and third, his references in 1846 to overproduction, to demand and consumption, and his generalization concerning capital investments and wages. However, most of his argumentation whether in defense of free trade or of protection was based upon statistical methods and inductive reasoning. The clever manipulation of elaborate data used in the 1824 and 1846 addresses was mentioned only to demonstrate Webster as an inductive economist and not to uphold the value of the data which he obtained from merchants and manufacturers, in considerable measure, who were interested for their own ends in influencing government economic policy.

Of all Webster's tariff speeches, the one delivered in 1828 was the least interesting from the viewpoint of either economist or political scientist. The excellent Faneuil Hall address of 1820 was overshadowed only by the superb speech of 1824,

the last defense he ever made of the free-trade policy, in which Webster touched upon a great number of economic subjects. It must be remembered that he was moderate in his opinions. Even in his free-trade days, he was not opposed to reasonable protection provided it was dispensed equitably and impartially to all branches of economic enterprise. In spite of the fact that he clung all his life to the principle of unrestrained commerce, it is regrettable that in his protectionist speeches he was compelled to abandon the noble ideal of equal protection to all. The 1824 speech, in a sense, marked a turning point in Webster's career insofar as his views on many important economic subjects were concerned. Protection having been established by the law of 1824, he altered his position on this question as a matter of policy and thereafter defended it vigorously. Along with this change of view he was compelled, in the interests of consistency, if for no other reason, to defend industrialism, the factory system, and the machine technique in terms discussed in detail under Part II. From 1828 to the end of his life, he was the energetic spokesman of capitalist industrial enterprise and was drawn farther away from championing the agricultural and commercial interests, of which, in his early public life, he held very high opinions.

To continue the brief commentaries on each of Webster's tariff utterances, it may be said of the incidental references in the great "Reply to Hayne" and of the protectionist arguments of 1832 and 1833 that they were of far less significance than his other expressions. The interesting debate with Calhoun protrayed Webster in the role of active protectionist, as regards policy, and as a collaborator of Henry Clay. The most important contributions made in this debate were his thoughts on certain points of theory and his defense of protection from the viewpoints of consumer and producer. For the first time, he espoused the diversification of industry

argument in 1840 and also for the first time he developed fully the home-market principle.

The 1846 speech attacked the "free trade" Walker bill on the grounds of the injury it would do to the workers, to manufacturing enterprises, and to the shippers. Rarely did Webster maintain that navigators and merchants had an interest in protection but in this case he tried to show that the curtailment of raw material imports would cut heavily into their revenue. He opposed the bill, furthermore, because of its provision for the *ad valorem* principle which he thought unjust and impracticable. Webster was assured that protection, to mention another point, would mean lower prices to the consumer because of competition. He ascribed the fall in prices of the forties to the tariff of 1842. Perhaps Webster overlooked other factors contributing to lower prices, such as the general fall in the price level to 1848, and improved methods of manufacturing, transportation, and mining. One of the most significant passages in the 1846 address related to his reassertion that he had always been a free trader in principle.

Having appraised in summary fashion Webster's greatest works concerning the tariff, a few concluding remarks may be made regarding his contributions to fiscal thought and policy. An interesting sidelight upon Webster's public career and his personality is offered by remarks contained in a letter to President-elect Harrison, who had tendered him the secretaryship of the Treasury in recognition of his services and abilities in respect to financial matters. Webster said that he did not consider himself qualified to handle the details of account and routine work of supervision, preferring to work on broader principles, and added that as Secretary of State, which position also had been offered him, he would be pleased to act as financial adviser, as well.[1]

[1] Letter to General Harrison, December 11, 1840, reprinted in *Writings and Speeches*, vol. xviii, p. 93.

In making his many speeches on the public revenues, Webster was guided in no small measure by faith in certain principles of general applicability. These precepts are recapitulated here. First, the income of the government must be steady and regular and reach to the true sources of permanent vitality, the real wealth of the people. Second, exactions ought to be levied in such a way as to accomplish the ends of social justice, by which he meant an approximate justice as between classes of people. His ideas of justice in taxation were not well developed nor was his application of the faculty theory attempted beyond the indirect levies upon consumers' wares. Third, Webster believed that the incidence of taxation, particularly in regard to his favorite form of revenue, the customs duties, was and ought to be diffused broadly throughout the general body of consumers. It should be added that he was not very explicit in his references to incidence. A point, not made elsewhere, may be added. Webster was not averse to levying taxes for regulatory purposes. In a letter to Ezekial Webster in 1814, he said that he favored a whiskey tax because "it will stop distillation in New England, a practice which draws upon our sources of life." [1]

Webster's discussions of the general principles of public expenditure were somewhat better than those concerned with principles of revenue. His criticisms of the Jackson and Van Buren fiscal policies, his clearly drawn classification of public expenditures, the enumeration of criteria as to what were the wisest and most just methods of utilization of the public funds—criteria which underlay the defense of his internal improvement policy—and his treatment of the "economy in government" maxim and of the desirability of rapid

[1] Letter to Ezekial Webster, October 30, 1814, reprinted in *Writings and Speeches*, vol. xvii, p. 253.

turnover of public money, demonstrate his mastery over this important phase of public finance.

His argumentations on public credit were equally admirable. His own ideas on this problem may be briefly summarized. The basis of public credit, in his opinion, lay in the prosperity of the people, in the unmistakable confidence of the populace in the form of government, in its stability, and in the character of public administration. Government credit, he thought, should rest upon the same standards as individual credit. He said: "It is not true as a general proposition that government credit is better than any other credit." [1] He did not think it expedient or just for the government to force its credit upon individuals in the form of Treasury notes. In general, he was opposed to a public debt except in war time because of alleged deleterious economic effects upon productive enterprise. However, in the event of a public debt, he believed that a definite plan for its retirement in the form of a sinking fund was indispensable. His principles of public credit were admirably illustrated and applied in his prolonged discussions over the Treasury note policy of the Van Buren administration. He preferred a longer time obligation at a lower interest rate than Treasury notes. The only instance in which he favored their use was in emergency periods when they might be issued in anticipation of taxes, but he denounced continually the administration's interpretation of them as revenue. In a speech of June 1846, criticizing the financial policies of the Mexican War, the significant statement is found that the credit of government is good as long as it lays taxes productive of revenue. [2] Webster desired in 1846 to enforce the principle to which

[1] Reply to Calhoun on the Treasury Note Bill, May 18, 1838, *Writings and Speeches*, vol. xiv, p. 253.

[2] Speech on the Volunteer Force, relative to the Mexican War, June 24, 1846, *Works of Webster*, vol. v, p. 156.

he had subscribed since the war of 1812; namely, that wars must be financed not alone by public credit but by a substantial increase of taxes as well. The discussions on public credit are among Webster's finest creations.

A brief survey of Webster's expressed opinions on the four great public issues taken up in Chapter II of Part IV remains to be made. In the first place, with regard to the public domain, he was actuated in favoring disposition of the public lands by social rather than fiscal motives, although the fiscal aspects of this problem were by no means ignored by him. He attempted to induce Congress to translate into action the principle that the lands constituted a trust fund held by the state for the benefit of all. On these grounds he supported the principle and policy of donations but found himself compelled, after a study of land conditions in the west, to abandon the policy and approve the pre-emption plan. He never relinquished his preference, however, for the donations principle. Again, social rather than fiscal considerations caused him to favor a policy of graduation of the public lands according to their quality.

Webster's support of the proposal to distribute the surplus revenue, in the second place, can be understood best if his principles of public revenue and expenditure are recalled. A perpetual policy of surplus financing, resulting in a division of the excess income to the states as a regular practice, he abhorred even more than continual deficit financing. No new ideas of great significance were expressed in Webster's speeches on the surplus revenue. However, his method of accounting for the surplus, his experimental attitude in advocating its distribution, and his suggestions as to how the surplus might be eliminated are further illustrative of Webster's capacities as an economist. The Specie Circular decree, in the third place, evoked his whole-hearted opposition because of injurious consequences to private enterprise, to cur-

rency stability, and to the public finances. Most of the economic thought embodied in the Specie Circular speeches was so intimately connected with problems of private finance that, in large measure, it has been worked into the subject matter of Chapter I, Part III, dealing with money, credit, and currency.

Finally, Webster's attack upon the Independent Treasury system may be said to be one of the most bitter he ever made during his public career. His actions were based upon both political and economic grounds, as was often the case with him. Time and experience have established the truth of many of his economic objections to the plan, one of which was that the loss of the indirect national control over local currencies would be a serious one to the community. Another strong objection was the loss of productive capital which would follow the hoarding of the funds from general use. The system did not, however, introduce an exclusive metallic currency, as he feared it would, "gold for the government, paper for the people." Webster's "universal" principles, again, were applied with consummate skill to an exposition of what he considered to be the grave economic fallacies of the Sub-Treasury proposal. Without any question, the speeches on the Sub-Treasury, especially the second one delivered in March of 1838, were among Webster's greatest achievements.

Just one interesting point in this connection remains to be made. Webster prepared a draft in 1841 to create an institution which would avoid the extremes of the United States Bank and the Sub-Treasury and retain the advantages of both. He endorsed his manuscript of the plan as the "Fiscal Agency" the essential feature of which was the creation of a Board of Exchequer appointed by the President with agents in states and territories. The Exchequer and agents would receive and disburse the public funds, would accept private

deposits, and issue exchequer bills in various denominations redeemable on demand where issued, the specie reserve for which was never to fall below one third. The issues were to be limited and received in payment for public dues. By such a plan Webster hoped to safeguard the public funds, provide a safe paper currency, and eliminate such evils as "the want of confidence in the stability of government, in values of property and wages, in the medium of exchange, and in trade and enterprise".[1] This plan to avoid extremes was before Congress in 1842 but not acted upon. It is mentioned here because it showed in a most interesting way Webster's ability to make practical use of his understanding of economic principles. Whether or not such a plan, which displays such remarkably close parallels in many respects to the present Federal Reserve system, would have proved workable, will never be known.

As a last word, it may be said that Webster's contributions to economic thought are not creative in the sense that they represent original conclusions drawn from dispassionate and independent study of economic questions. His economic thinking, stimulated by circumstances of the immediate environment and by the comments of distinguished contemporaries, takes the form of extensive discussion of the economic issues faced by the American people for a period of more than forty years. He cannot be considered a member of that class of scientists and investigators who are interested in seeking out new truths for their own sakes. He lacked the patience and the original cast of mind essential for this kind of work. His peculiar genius lay in his ability to arrange and state facts in a most effective and convincing manner. His point of view was more that of the advocate in his treatment of both economic and legal problems than

[1] Draft of a message on the exchequer, December, 1841, *Writings and Speeches*, vol. xv, pp. 144-147.

of the disinterested scientist. Nevertheless, it is appropriate to regard him as a distinguished economist in the sense that he thoroughly understood economic questions and profoundly influenced the development of economic thought and institutions in the United States.

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VITA

THE author was born at Houston, Texas, on September 25, 1898. He attended the University of Washington and received the degrees of B.S. in 1920 and A.B. in 1921. Graduate work was begun at the University of California where he received the degree of A.M. in 1923. He studied there in seminars dealing with economic theory, labor, and political theory conducted, respectively, by Professors Plehn, Blum, and Teggart. He continued his graduate study at Harvard and remained for one year, attending a seminar in government conducted by Professor Munro. He then came to Columbia and became a member of the graduate seminar under the direction of Professors Seligman, Seager, Simkhovitch, and Mitchell. He is now instructor in economics at New York University.